

CEVA INC  
Form 10-Q  
November 09, 2015  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**For the quarterly period ended: September 30, 2015**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 000-49842**

**CEVA, Inc.**

**(Exact Name of Registrant as Specified in Its Charter)**

<b>Delaware</b> <b>(State or Other Jurisdiction of</b>	<b>77-0556376</b> <b>(I.R.S. Employer</b>
<b>Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>1174 Castro Street, Suite 210, Mountain View,</b> <b>California</b> <b>(Address of Principal Executive Offices)</b>	<b>94040</b> <b>(Zip Code)</b>
<b>(650) 417-7900</b> <b>(Registrant's Telephone Number, Including Area Code)</b>	

Indicate by check mark whether the registrant: (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 20,443,050 shares of common stock, \$0.001 par value, as of Nov 3, 2015.

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Interim Condensed Consolidated Balance Sheets at September 30, 2015 (unaudited) and December 31, 2014</u>	3
<u>Interim Condensed Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2015 and 2014</u>	4
<u>Interim Condensed Consolidated Statements of Comprehensive Income (unaudited) for the three and nine months ended September 30, 2015 and 2014</u>	5
<u>Interim Condensed Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2015 and 2014</u>	6
<u>Notes to the Interim Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	25
Item 4. <u>Controls and Procedures</u>	26
<b>PART <u>OTHER INFORMATION</u></b>	
<b>II.</b>	
Item 1. <u>Legal Proceedings</u>	27
Item 1A. <u>Risk Factors</u>	27
Item 2. <u>Unregistered Sales Of Equity Securities And Use Of Proceeds</u>	36
Item 3. <u>Defaults Upon Senior Securities</u>	36
Item 4. <u>Mine Safety Disclosures</u>	36
Item 5. <u>Other Information</u>	36
Item 6. <u>Exhibits</u>	36
<b><u>SIGNATURES</u></b>	<b>37</b>

Table of Contents

**FORWARD-LOOKING STATEMENTS**

**FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA**

This Quarterly Report contains forward-looking statements that involve risks and uncertainties, as well as assumptions that if they materialize or prove incorrect, could cause the results of CEVA to differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Forward-looking statements are generally written in the future tense and/or are preceded by words such as will, may, should, could, expect, suggest, believe, intend, plan, or other similar words. Forward-looking statements include the following:

Our belief that the adoption of our DSP cores, software and connectivity IPs for IoT applications continues to progress;

Our belief that our licensing expansion strategy will result in future royalty growth and a more diversified royalty base;

Our belief that we will benefit from the handset market transitioning from feature phones to smartphones because we derive higher royalties on average from smartphones than feature phones;

Our belief that the RivieraWaves acquisition substantially increased our overall addressable market to cover all categories of Bluetooth and Wi-Fi connected devices, which according to ABI Research is expected to be 35 billion devices by 2020;

Our belief that our presence in the 3G and LTE smartphone markets will continue to grow as our customers targeting those markets are gaining market share at the expense of the incumbents;

Our anticipation that product shipments incorporating Bluetooth IP and WiFi IP acquired from RivieraWaves will continue to grow;

Our belief that our intelligent audio processing IP strongly positions us for the new range of addressable end markets;

Our belief that our vision processing IP strongly positions us to expand our footprint in smartphones and further into tablets, drones, surveillance and automotive applications, and that specifically ABI Research predicts that cameras equipped with vision processing will grow to 2.7 billion by 2017;

Our belief that our handset baseband business will continue to be a significant growth driver for us;

Our belief that unit shipments for non-handset baseband applications will reach 700 to 900 million units annually by 2018;

Our belief that our licensing pipeline continues to be healthy across all of our product lines;

Our anticipation that our cash and cash equivalents, short-term bank deposits and marketable securities, along with cash from operations, will provide sufficient capital to fund our operations for at least the next 12 months; and

Our belief that changes in interest rates within our investment portfolio will not have a material effect on our financial position on an annual or quarterly basis.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The forward-looking statements contained in this report are based on information that is currently available to us and expectations and assumptions that we deem reasonable at the time the statements were made. We do not undertake any obligation to update any forward-looking statements in this report or in any of our other communications, except as required by law. All such forward-looking statements should be read as of the time the statements were made and with the recognition that these forward-looking statements may not be complete or accurate at a later date.

**Table of Contents**

Many factors may cause actual results to differ materially from those expressed or implied by the forward-looking statements contained in this report. These factors include, but are not limited to, those risks set forth in Part II Item 1A Risk Factors of this Form 10-Q.

This report contains market data prepared by third party research firm. Actual market results may differ from their projections.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands, except share and per share data

	<b>September 30, 2015 Unaudited</b>	<b>December 31, 2014 Audited</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,316	\$ 16,166
Short term bank deposits	18,529	37,444
Marketable securities	48,268	47,833
Trade receivables, net	9,137	8,347
Deferred tax assets	1,978	1,868
Prepaid expenses and other current assets	3,869	3,982
<b>Total current assets</b>	<b>98,097</b>	<b>115,640</b>
Long term bank deposits	46,282	28,424
Severance pay fund	7,212	7,011
Deferred tax assets	668	399
Property and equipment, net	2,994	2,605
Investments in other company	1,806	1,806
Intangible assets, net	4,538	5,512
Goodwill	46,612	46,612
<b>Total long-term assets</b>	<b>110,112</b>	<b>92,369</b>
<b>Total assets</b>	<b>\$ 208,209</b>	<b>\$ 208,009</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Trade payables	\$ 875	\$ 864
Deferred revenues	2,045	1,681
Accrued expenses and other payables	3,230	3,518
Contingent consideration (Note 3)		3,603
Accrued payroll and related benefits	9,774	10,054
Income taxes payable, net	462	739
<b>Total current liabilities</b>	<b>16,386</b>	<b>20,459</b>

Edgar Filing: CEVA INC - Form 10-Q

Long term liabilities:		
Accrued severance pay	7,471	7,096
Deferred tax liabilities	1,096	1,405
<b>Total long-term liabilities</b>	<b>8,567</b>	<b>8,501</b>
Stockholders' equity:		
Preferred Stock:		
\$0.001 par value: 5,000,000 shares authorized; none issued and outstanding		
Common Stock:		
\$0.001 par value: 60,000,000 shares authorized; 23,595,160 shares issued at September 30, 2015 and December 31, 2014. 20,396,241 and 20,252,490 shares outstanding at September 30, 2015 and December 31, 2014, respectively		
	20	20
Additional paid in-capital	212,333	209,426
Treasury stock at cost (3,198,919 and 3,342,670 shares of common stock at September 30, 2015 and December 31, 2014, respectively)	(53,452)	(54,708)
Accumulated other comprehensive loss	(325)	(436)
Retained earnings	24,680	24,747
<b>Total stockholders' equity</b>	<b>183,256</b>	<b>179,049</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 208,209</b>	<b>\$ 208,009</b>

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.



**Table of Contents****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

U.S. dollars in thousands, except per share data

	<b>Nine months ended September 30,</b>		<b>Three months ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>				
Licensing and related revenue	\$ 24,108	\$ 20,989	\$ 8,600	\$ 8,728
Royalties	19,320	15,998	7,635	5,370
<b>Total revenues</b>	<b>43,428</b>	<b>36,987</b>	<b>16,235</b>	<b>14,098</b>
Cost of revenues	4,016	3,737	1,281	1,255
<b>Gross profit</b>	<b>39,412</b>	<b>33,250</b>	<b>14,954</b>	<b>12,843</b>
<b>Operating expenses:</b>				
Research and development, net	21,175	18,500	6,571	6,453
Sales and marketing	7,358	7,201	2,384	2,611
General and administrative	5,821	6,124	2,183	2,223
Amortization of intangible assets	974	326	325	326
<b>Total operating expenses</b>	<b>35,328</b>	<b>32,151</b>	<b>11,463</b>	<b>11,613</b>
<b>Operating income</b>	<b>4,084</b>	<b>1,099</b>	<b>3,491</b>	<b>1,230</b>
Financial income , net	643	943	401	66
Other loss		(404)		(404)
<b>Income before taxes on income</b>	<b>4,727</b>	<b>1,638</b>	<b>3,892</b>	<b>892</b>
Income taxes	764	523	583	236
<b>Net income</b>	<b>\$ 3,963</b>	<b>\$ 1,115</b>	<b>\$ 3,309</b>	<b>\$ 656</b>
<b>Basic and diluted net income per share</b>	<b>\$ 0.19</b>	<b>\$ 0.05</b>	<b>\$ 0.16</b>	<b>\$ 0.03</b>
<b>Weighted-average shares used to compute net income per share (in thousands):</b>				
Basic	20,477	20,761	20,448	20,355
Diluted	20,918	21,132	20,811	20,667

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.



**Table of Contents****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(UNAUDITED)**

U.S. dollars in thousands

	<b>Nine months ended</b>		<b>Three months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income:	\$ 3,963	\$ 1,115	\$ 3,309	\$ 656
Other comprehensive income (loss) before tax:				
Available-for-sale securities:				
Changes in unrealized gains (losses)	(47)	(126)	(47)	(114)
Reclassification adjustments for (gains) losses included in net income	74	(15)	28	1
Net change	27	(141)	(19)	(113)
Cash flow hedges:				
Changes in unrealized gains (losses)	137	(219)	(138)	(279)
Reclassification adjustments for (gains) losses included in net income	(58)	35	(59)	59
Net change	79	(184)	(197)	(220)
Other comprehensive income (loss) before tax	106	(325)	(216)	(333)
Income tax expense (benefit) related to components of other comprehensive income (loss)	(5)	(67)	(30)	(58)
Other comprehensive income (loss), net of taxes	111	(258)	(186)	(275)
Comprehensive income	\$ 4,074	\$ 857	\$ 3,123	\$ 381

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

**Table of Contents****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

U.S. dollars in thousands

	<b>Nine months ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,963	\$ 1,115
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation	784	528
Amortization of intangible assets	974	326
Equity-based compensation	2,795	3,983
Realized (gain) loss, net on sale of available-for-sale marketable securities	74	(15)
Amortization of premiums on available-for-sale marketable securities	841	865
Unrealized foreign exchange loss	213	416
Loss on realization of investment in other company		404
Changes in operating assets and liabilities:		
Trade receivables	(790)	(2,318)
Prepaid expenses and other current assets	29	269
Accrued interest on bank deposits	(42)	(303)
Deferred tax, net	(712)	(565)
Trade payables	21	(335)
Deferred revenues	364	1,584
Accrued expenses and other payables	(169)	(270)
Accretion of contingent consideration	97	
Accrued payroll and related benefits	(413)	39
Income taxes payable	(277)	287
Excess tax benefit from equity-based compensation	(112)	
Accrued severance pay, net	172	58
Net cash provided by operating activities	7,812	6,068
<b>Cash flows from investing activities:</b>		
Acquisition of subsidiary, net of cash acquired (see note 3)		(13,489)
Purchase of property and equipment	(1,173)	(758)
Investment in bank deposits	(46,328)	(39,564)
Proceeds from bank deposits	47,451	25,341
Investment in available-for-sale marketable securities	(26,195)	(24,368)
Proceeds from maturity of available-for-sale marketable securities	3,989	1,583
Proceeds from sale of available-for-sale marketable securities	20,883	50,767
Proceeds from realization of investment in other company	111	1,011
Net cash provided by (used in) investing activities	(1,262)	523

<b>Cash flows from financing activities:</b>		
Payment of contingent consideration (see note 3)	(3,700)	
Purchase of treasury stock	(8,156)	(18,657)
Proceeds from exercise of stock-based awards	5,382	2,377
Excess tax benefit from equity-based compensation	112	
Net cash used in financing activities	(6,362)	(16,280)
Effect of exchange rate movements on cash	(38)	(386)
Increase (decrease) in cash and cash equivalents	150	(10,075)
Cash and cash equivalents at the beginning of the period	16,166	24,117
Cash and cash equivalents at the end of the period	\$ 16,316	\$ 14,042
<b>Supplemental information of cash-flow activities:</b>		
Cash paid during the period for:		
Income and withholding taxes, net of refunds	\$ 1,693	\$ 734

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

---

**Table of Contents**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except share data)**

**NOTE 1: BUSINESS**

The financial information in this quarterly report includes the results of CEVA, Inc. and its subsidiaries (the Company or CEVA ).

CEVA licenses a family of programmable DSP cores and application-specific platforms for vision, imaging, audio and voice, as well as communications and connectivity technologies, including wireless and wired modems, Wi-Fi, Bluetooth and Serial ATA (SATA) and Serial Attached SCSI (SAS).

CEVA's technologies are licensed to leading semiconductor and original equipment manufacturer (OEM) companies in the form of intellectual property (IP). These companies design, manufacture, market and sell application-specific integrated circuits (ASICs) and application-specific standard products (ASSPs) based on CEVA's technology to wireless, consumer electronics and automotive companies for incorporation into a wide variety of end products.

**NOTE 2: BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The interim condensed consolidated financial statements have been prepared according to U.S Generally Accepted Accounting Principles ( U.S. GAAP ).

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2014, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 13, 2015, have been applied consistently in these unaudited interim condensed consolidated financial statements.

***Use of Estimates***

The preparation of the interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the interim condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3: ACQUISITION OF RIVIERAWAVES**

On July 4, 2014 (the Closing Date), the Company acquired 100% of RivieraWaves SAS (RivieraWaves), a privately-held, French-based company and a provider of wireless connectivity intellectual property for Wi-Fi and Bluetooth technologies. The Company agreed to pay an aggregate of \$18,378 to acquire RivieraWaves with \$14,678 paid on the Closing Date and the remaining amount of \$3,700 payable upon the satisfaction of certain milestones (the Contingent Consideration). During the first quarter of 2015, the Company paid \$2,700 of the Contingent Consideration. During the second quarter of 2015, the Company paid the remaining \$1,000 of the Contingent Consideration. Accretion of the Contingent Consideration liability is included in financial income, net.

The acquisition has been accounted in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 805, Business Combinations.

In addition, as part of the acquisition, the Company established an employee retention plan for the RivieraWaves employees at a cost of approximately \$3,400, to be payable on a semi-annual basis for a period of two years after the Closing Date. As of September 30, 2015, the Company paid \$971 of the employee retention plan.

Table of ContentsNOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

**NOTE 4: MARKETABLE SECURITIES**

The following is a summary of available-for-sale marketable securities:

	<b>September 30, 2015 (Unaudited)</b>			
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
<b>Available-for-sale securities matures within one year:</b>				
Corporate bonds	\$ 10,376	\$ 1	\$ (81)	\$ 10,296
<b>Available-for-sale securities matures after one year through three years:</b>				
Certificate of deposits	1			1
Corporate bonds	38,284	5	(318)	37,971
	38,285	5	(318)	37,972
<b>Total</b>	<b>\$ 48,661</b>	<b>\$ 6</b>	<b>\$ (399)</b>	<b>\$ 48,268</b>

	<b>December 31, 2014 (Audited)</b>			
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
<b>Available-for-sale securities matures within one year:</b>				
Corporate bonds	\$ 5,443	\$	\$ (46)	\$ 5,397
<b>Available-for-sale securities matures after one year through three years:</b>				
Certificate of deposits	1,975			1,975
Corporate bonds	40,835	9	(383)	40,461
	42,810	9	(383)	42,436
<b>Total</b>	<b>\$ 48,253</b>	<b>\$ 9</b>	<b>\$ (429)</b>	<b>\$ 47,833</b>

The following table presents gross unrealized losses and fair values for those investments that were in an unrealized loss position as of September 30, 2015 and December 31, 2014, and the length of time that those investments have been in a continuous loss position:



	Less than 12 months		12 months or greater	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
As of September 30, 2015	\$ 28,399	\$ (286)	\$ 13,001	\$ (113)
As of December 31, 2014	\$ 34,152	\$ (313)	\$ 9,469	\$ (116)

As of September 30, 2015 and December 31, 2014, management believes the impairments are not other than temporary and therefore the impairment losses were recorded in accumulated other comprehensive income (loss). The Company has no intent to sell these securities and it is more likely than not that the Company will not be required to sell these securities prior to the recovery of the entire amortized cost basis.

The following table presents gross realized gain and gross realized loss from sale of available-for-sale marketable securities:

**Table of Contents****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

(in thousands, except share data)

	Nine months ended September 30,		Three months ended September 30,	
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Gross realized gain from sale of available-for-sale marketable securities	\$ 2	\$ 89	\$	\$ 20
Gross realized loss from sale of available-for-sale marketable securities	\$ (76)	\$ (74)	\$ (28)	\$ (21)

**NOTE 5: FAIR VALUE MEASUREMENT**

FASB ASC No. 820, Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value. Fair value is an exit price, representing the amount that would be received for selling an asset or paid for the transfer of a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

- Level I Unadjusted quoted prices in active markets that are accessible on the measurement date for identical, unrestricted assets or liabilities;
- Level II Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level III Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The Company measures its marketable securities, foreign currency derivative contracts and the Contingent Consideration at fair value. Marketable securities and foreign currency derivative contracts are classified within Level II as the valuation inputs are based on quoted prices and market observable data of similar instruments. The Contingent Consideration related to the RivieraWaves acquisition is classified within Level III as it is based on significant inputs not observable in the market.

The table below sets forth the Company's assets and liabilities measured at fair value by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Description	September 30, 2015	Level I	Level II	Level III
<u>Assets:</u>				
Marketable securities:				
Certificate of deposits	\$ 1	\$	\$ 1	\$

Edgar Filing: CEVA INC - Form 10-Q

Corporate bonds	48,267	48,267
Foreign exchange contracts	15	15

<b>Description</b>	<b>December 31, 2014</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>
<b>Assets:</b>				
Marketable securities:				
Certificate of deposits	\$ 1,975	\$	\$ 1,975	\$
Corporate bonds	45,858		45,858	
<b>Liabilities:</b>				
Foreign exchange contracts	64		64	
Contingent Consideration	3,603			3,603

**Table of Contents****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(in thousands, except share data)**

The table below presents the changes in Level 3 Contingent Consideration liability measured on a recurring basis and related to the acquisition of RivieraWaves:

Balance at December 31, 2014	\$ 3,603
Fair value adjustment	97
Payment	(3,700)

Balance at September 30, 2015

**NOTE 6: INVESTMENT IN OTHER COMPANY**

In August 2014, the Company received an initial consideration of 757 Euro (approximately \$1,011) when Antcor Advanced Network Technologies S.A. ( Antcor ), a company in which the Company had a minority investment, was acquired. In October 2014, the Company received an additional 17 Euro (approximately \$21) and in August 2015 the Company received 99 Euro (approximately \$111), which amount had been held by the buyer to secure Antcor's indemnification claims. Pursuant to the acquisition agreement, the Company may receive additional proceeds from the buyer within five years after closing of the acquisition based on achievement of certain performance and other milestones by Antcor. During the three and nine months ended September 30, 2014, the Company recorded a loss of \$404 from the sale of its investment in Antcor.

**NOTE 7: GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER DATA**

## a. Summary information about geographic areas:

The Company manages its business on the basis of one reportable segment: the licensing of intellectual property to semiconductor companies and electronic equipment manufacturers (see Note 1 for a brief description of the Company's business). The following is a summary of revenues within geographic areas:

	<b>Nine months ended September 30,</b>		<b>Three months ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Revenues based on customer location:				
United States	\$ 8,335	\$ 8,639	\$ 3,482	\$ 1,904
Europe and Middle East	5,202	4,272	1,590	934
Asia Pacific (1) (2) (3)	29,891	24,076	11,163	11,260
	<b>\$ 43,428</b>	<b>\$ 36,987</b>	<b>\$ 16,235</b>	<b>\$ 14,098</b>

Edgar Filing: CEVA INC - Form 10-Q

(1) China	\$ 20,972	\$ 14,534	\$ 8,423	\$ 8,048
(2) Taiwan	\$ *)	\$ 3,735	\$ *)	\$ *)
(3) S. Korea	\$ *)	\$ *)	\$ 2,131	\$ 2,249

\*) Less than 10%

Table of ContentsNOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

b. Major customer data as a percentage of total revenues:

The following table sets forth the customers that represented 10% or more of the Company's total revenues in each of the periods set forth below.

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Customer A	33%	22%	45%	23%
Customer B	*)	11%	*)	28%
Customer C	*)	*)	11%	15%
Customer D	*)	*)	13%	*)

\*) Less than 10%

**NOTE 8: NET INCOME PER SHARE OF COMMON STOCK**

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during each period, plus dilutive potential shares of common stock considered outstanding during the period, in accordance with FASB ASC No. 260, Earnings Per Share.

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
<b>Numerator:</b>				
Net income	\$ 3,963	\$ 1,115	\$ 3,309	\$ 656
<b>Denominator (in thousands):</b>				
Basic weighted-average common stock outstanding	20,477	20,761	20,448	20,355
Effect of stock options, stock appreciation rights and restricted stock units	441	371	363	312
Diluted weighted average common stock outstanding	20,918	21,132	20,811	20,667

Basic and diluted net income per share	\$ 0.19	\$ 0.05	\$ 0.16	\$ 0.03
--	---------	---------	---------	---------

The weighted average number of shares related to outstanding options, stock appreciation rights and restricted stock units excluded from the calculation of diluted net income per share, since their effect was anti-dilutive, was 915,898 and 861,491 shares for the three and nine months ended September 30, 2015, respectively, and 2,448,690 and 2,287,802 for the corresponding periods of 2014.

#### **NOTE 9: COMMON STOCK AND STOCK-BASED COMPENSATION PLANS**

The Company grants stock options and stock appreciation rights ( SARs ) capped with a ceiling to employees and stock options to non-employee directors of the Company and its subsidiaries and provides the right to purchase common stock pursuant to the Company's 2002 employee stock purchase plan to employees of the Company and its subsidiaries. The SAR unit confers the holder the right to stock appreciation over a preset price of the Company's common stock during a specified period of time. When the unit is exercised, the appreciation amount is paid through the issuance of shares of the Company's common stock. The ceiling limits the maximum income for each SAR unit. SARs are considered an equity instrument as it is a net share settled award capped with a ceiling (400% for SAR grants made during the nine months ended September 30, 2015). The options and SARs granted under the Company's stock incentive plans have been granted at the fair market value of the Company's common stock on the grant date. Options and SARs granted to employees under stock incentive plans vest at a rate of 25% of the shares underlying the option after one year and the remaining shares vest in equal portions over the following 36 months, such that all shares are vested after four years.

Table of ContentsNOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

Options granted to non-employee directors vest 25% of the shares underlying the option on each anniversary of the option grant. A summary of the Company's stock option and SARs activities and related information for the nine months ended September 30, 2015, are as follows:

	Number of options and SAR units	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic- value
Outstanding as of December 31, 2014	3,316,380	\$ 16.50		
Granted (1)	172,500	19.42		
Exercised	(538,490)	10.54		
Forfeited or expired	(196,142)	21.13		
Outstanding as of September 30, 2015 (2)	2,754,248	\$ 17.52	4.4	\$ 7,355,416
Exercisable as of September 30, 2015 (3)	1,820,312	\$ 18.06	3.5	\$ 5,187,686

- (1) The SAR units are convertible for a maximum number of shares of the Company's common stock equal to 75% of the SAR units subject to the grant.
- (2) Due to the ceiling imposed on the SAR grants, the outstanding amount equals a maximum of 2,405,770 shares of the Company's common stock issuable upon exercise.
- (3) Due to the ceiling imposed on the SAR grants, the exercisable amount equals a maximum of 1,643,348 shares of the Company's common stock issuable upon exercise.

As of September 30, 2015, there was \$2,596 of unrecognized compensation expense related to unvested stock options and SARs. This amount is expected to be recognized over a weighted-average period of 1.4 years. To the extent the actual forfeiture rate is different from what the Company has estimated, equity-based compensation related to these awards will be different from the Company's expectations.

Starting in the second quarter of 2015, the Company granted to employees, including executive officers and non-employee directors of the Company, restricted stock units (RSUs) under the Company's 2011 Stock Incentive Plan. A RSU award is an agreement to issue shares of the Company's common stock at the time the award or a portion thereof vests. RSUs granted to employees generally vest in three equal annual installments starting on the first anniversary of the grant date. RSUs granted to non-employee directors generally vest in full on the first anniversary of the grant date. The fair value of each RSU is the Market value as determined by the closing price of the common stock on the day of grant. The Company recognizes compensation expenses for the value of its RSU awards, based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. A summary of the Company's RSU activities and related information for the nine months ended September 30, 2015, are as follows:



	<b>Number of RSUs</b>	<b>Weighted average Grant-Date fair value</b>
Unvested as of December 31, 2014		\$
Granted	238,000	19.74
Vested		
Forfeited or expired	(7,000)	19.83
Unvested as of September 30, 2015	231,000	\$ 19.74
Expected to vest after September 30, 2015	214,500	\$ 19.74

As of September 30, 2015, there was \$3,790 of unrecognized compensation expense related to unvested RSUs. This amount is expected to be recognized over a weighted-average period of 1.8 years. To the extent the actual forfeiture rate is different from what the Company has estimated, equity-based compensation related to these awards will be different from the Company's expectations.

**Table of Contents****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(in thousands, except share data)**

The following table shows the total equity-based compensation expense included in the interim condensed consolidated statements of income:

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Cost of revenue	\$ 111	\$ 159	\$ 34	\$ 45
Research and development, net	1,323	1,575	438	441
Sales and marketing	395	753	151	185
General and administrative	966	1,496	496	451
<b>Total equity-based compensation expense</b>	<b>\$ 2,795</b>	<b>\$ 3,983</b>	<b>\$ 1,119</b>	<b>\$ 1,122</b>

The fair value for the Company's stock options and SARs (other than share issuances in connection with the employee stock purchase plan, as detailed below) granted to employees and non-employees directors was estimated using the following assumptions:

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Expected dividend yield	0%	0%	0%	0%
Expected volatility	33%-49%	36%-52%	35%-49%	36%-51%
Risk-free interest rate	0.2%-2.4%	0.1%-2.5%	0.3%-2.4%	0.1%-2.2%
Expected forfeiture (employees)	10%	10%	10%	10%
Expected forfeiture (executives)	5%	5%	5%	
Contractual term of up to	10 Years	10 Years	10 Years	7 Years
Suboptimal exercise multiple (employees)	2.1	2.1	2.1	2.1
Suboptimal exercise multiple (executives)	2.4	2.4	2.4	

The fair value for rights to purchase shares of common stock under the Company's employee stock purchase plan was estimated on the date of grant using the following assumptions:

	Nine months ended September 30,		Three months ended September 30,	
	2015	2014	2015	2014

	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Expected dividend yield	0%	0%	0%	0%
Expected volatility	35%-36%	29%-52%	35%-36%	29%
Risk-free interest rate	0.1%-0.3%	0.1%-0.2%	0.2%-0.3%	0.1%
Expected forfeiture	0%	0%	0%	0%
Contractual term of up to	24 months	24 months	24 months	24 months

**NOTE 10: DERIVATIVES AND HEDGING ACTIVITIES**

The Company follows the requirements of FASB ASC No. 815, Derivatives and Hedging which requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging transaction and further, on the type of hedging transaction. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. Due to the Company's global

**Table of Contents****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(in thousands, except share data)**

operations, it is exposed to foreign currency exchange rate fluctuations in the normal course of its business. The Company's treasury policy allows it to offset the risks associated with the effects of certain foreign currency exposures through the purchase of foreign exchange forward or option contracts ( Hedging Contracts ). The policy, however, prohibits the Company from speculating on such Hedging Contracts for profit. To protect against the increase in value of forecasted foreign currency cash flow resulting from salaries paid in currencies other than the U.S. dollar during the year, the Company instituted a foreign currency cash flow hedging program. The Company hedges portions of the anticipated payroll of its non-U.S. employees denominated in the currencies other than the U.S. dollar for a period of one to twelve months with Hedging Contracts. Accordingly, when the dollar strengthens against the foreign currencies, the decline in present value of future foreign currency expenses is offset by losses in the fair value of the Hedging Contracts. Conversely, when the dollar weakens, the increase in the present value of future foreign currency expenses is offset by gains in the fair value of the Hedging Contracts. These Hedging Contracts are designated as cash flow hedges.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any gain or loss on a derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item is recognized in current earnings during the period of change. As of September 30, 2015 and December 31, 2014, the notional principal amount of the Hedging Contracts to sell U.S. dollars held by the Company was \$4,350 and \$4,200, respectively.

The fair value of the Company's outstanding derivative instruments is as follows:

	<b>September 30, 2015 (Unaudited)</b>	<b>December 31, 2014 (Audited)</b>
<b>Derivative assets:</b>		
Derivatives designated as cash flow hedging instruments:		
Foreign exchange option contracts	\$ 4	\$
Foreign exchange forward contracts	11	
<b>Total</b>	<b>\$ 15</b>	<b>\$</b>
<b>Derivative liabilities:</b>		
Derivatives designated as cash flow hedging instruments:		
Foreign exchange option contracts	\$	\$ 52
Foreign exchange forward contracts		12

Total \$ \$ 64

The Company recorded the fair value of derivative assets in prepaid expenses and other accounts receivable and the fair value of derivative liabilities in accrued expenses and other payables on the Company's interim condensed consolidated balance sheets.

The increase (decrease) in unrealized gains (losses) recognized in accumulated other comprehensive income (loss) on derivatives, before tax effect, is as follows:

	<b>Nine months ended September 30,</b>		<b>Three months ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Derivatives designated as cash flow hedging instruments:				
Foreign exchange option contracts	\$ 61	\$ (198)	\$ (151)	\$ (226)
Foreign exchange forward contracts	76	(21)	13	(53)
	\$ 137	\$ (219)	\$ (138)	\$ (279)

**Table of Contents****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(in thousands, except share data)**

The net (gains) losses reclassified from accumulated other comprehensive income (loss) into income are as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Derivatives designated as cash flow hedging instruments:				
Foreign exchange option contracts	\$ (5)	\$ 15	\$ (64)	\$ 26
Foreign exchange forward contracts	(53)	20	5	33
	\$ (58)	\$ 35	\$ (59)	\$ 59

The Company recorded in cost of revenues and operating expenses a net gain of \$59 and \$58 during the three and nine months ended September 30, 2015, respectively, and a net loss of \$59 and \$35 for the comparable periods of 2014, related to its Hedging Contracts.

**NOTE 11: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following tables summarize the changes in accumulated balances of other comprehensive income (loss), net of taxes:

**Three months ended September 30, 2015**

	Unrealized gains (losses) on available-for-sale marketable securities	Unrealized gains (losses) on cash flow hedges	Total
Beginning balance	\$ (327)	\$ 188	\$ (139)
Other comprehensive income (loss) before reclassifications	(39)	(123)	(162)
Amounts reclassified from accumulated other comprehensive income (loss)	28	(52)	(24)
Net current period other comprehensive income (loss)	(11)	(175)	(186)

Ending balance	\$	(338)	\$	13	\$ (325)
----------------	----	-------	----	----	----------

**Nine months ended September 30, 2015**

		<b>Unrealized gains (losses) on available-for-sale marketable securities</b>	<b>Unrealized gains (losses) on cash flow hedges</b>	<b>Total</b>
Beginning balance	\$	(379)	\$ (57)	\$ (436)
Other comprehensive income (loss) before reclassifications		(26)	121	95
Amounts reclassified from accumulated other comprehensive income (loss)		67	(51)	16
Net current period other comprehensive income (loss)		41	70	111
Ending balance	\$	(338)	\$ 13	\$ (325)

Table of ContentsNOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

Three months ended September 30, 2014

	Unrealized gains (losses) on available-for-sale marketable securities	Unrealized gains (losses) on cash flow hedges	Total
Beginning balance	\$ (82)	\$ 18	\$ (64)
Other comprehensive income (loss) before reclassifications	(79)	(249)	(328)
Amounts reclassified from accumulated other comprehensive income (loss)		53	53
Net current period other comprehensive income (loss)	(79)	(196)	(275)
Ending balance	\$ (161)	\$ (178)	\$ (339)

Nine months ended September 30, 2014

	Unrealized gains (losses) on available-for-sale marketable securities	Unrealized gains (losses) on cash flow hedges	Total
Beginning balance	\$ (65)	\$ (16)	\$ (81)
Other comprehensive income (loss) before reclassifications	(85)	(194)	(279)
Amounts reclassified from accumulated other comprehensive income (loss)	(11)	32	21
Net current period other comprehensive income (loss)	(96)	(162)	(258)
Ending balance	\$ (161)	\$ (178)	\$ (339)



The following table provides details about reclassifications out of accumulated other comprehensive income (loss):

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)				Affected Line Item in the Statements of Income
	Nine months ended		Three months ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Unrealized gains (losses) on cash flow hedges	\$ (1)	\$ (2)	\$ (1)	\$ (2)	Cost of revenues
	52	(28)	53	(48)	Research and development
	2	(3)	2	(5)	Sales and marketing
	5	(2)	5	(4)	General and administrative
	58	(35)	59	(59)	Total, before income taxes
	7	(3)	7	(6)	Income tax expense (benefit)
	51	(32)	52	(53)	Total, net of income taxes
Unrealized gains (losses) on available-for-sale marketable securities	(74)	15	(28)	(1)	Financial income (loss), net
	(7)	4		(1)	Income tax expense (benefit)
	(67)	11	(28)		Total, net of income taxes
	\$ (16)	\$ (21)	\$ 24	\$ (53)	Total, net of income taxes

---

**Table of Contents**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(in thousands, except share data)**

**NOTE 12: SHARE REPURCHASE PROGRAM**

During the third quarter of 2015, the Company repurchased 158,570 shares of common stock at an average purchase price of \$17.74 per share for an aggregate purchase price of \$2,813. During the third quarter of 2014, the Company repurchased 297,463 shares of common stock at an average purchase price of \$14.74 per share for an aggregate purchase price of \$4,385. During the first nine months ended September 30, 2015, the Company repurchased 428,590 shares of common stock at an average purchase price of \$19.03 per share for an aggregate purchase price of \$8,156. During the first nine months ended September 30, 2014, the Company repurchased 1,227,148 shares of common stock at an average purchase price of \$15.20 per share for an aggregate purchase price of \$18,657. As of September 30, 2015, 571,410 shares of common stock remained available for repurchase pursuant to the Company's share repurchase program.

The repurchases of common stock are accounted for as treasury stock, and result in a reduction of stockholders' equity. When treasury shares are reissued, the Company accounts for the reissuance in accordance with FASB ASC No. 505-30, Treasury Stock, and charges the excess of the repurchase cost over issuance price using the weighted average method to retained earnings. The purchase cost is calculated based on the specific identified method. In the case where the repurchase cost over issuance price using the weighted average method is lower than the issuance price, the Company credits the difference to additional paid-in capital.

**NOTE 13: IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET ADOPTED**

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance related to revenue from contracts with customers. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The updated standard was expected to be effective for the Company in the first quarter of 2017. However, on July 9, 2015, the FASB determined to delay the effective date of the new revenue standard by one year. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion together with the unaudited financial statements and related notes appearing elsewhere in this quarterly report. This discussion contains forward-looking statements that involve risks and uncertainties. Any or all of our forward-looking statements in this quarterly report may turn out to be wrong. These forward-looking statements can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Factors which could cause actual results to differ materially include those set forth under in Part II Item 1A Risk Factors, as well as those discussed elsewhere in this quarterly report. See Forward-Looking Statements.*

**BUSINESS OVERVIEW**

The financial information presented in this quarterly report includes the results of CEVA, Inc. and its subsidiaries.

CEVA is a leading licensor of cellular, multimedia and connectivity technologies to semiconductor companies and OEMs serving the mobile, consumer, automotive and Internet-of-Things ( IoT ) markets. Our DSP intellectual property portfolio includes comprehensive platforms for multimode 2G/3G/LTE/LTE-A baseband processing in terminals and infrastructure, computer vision and computational photography for any camera-enabled device, audio/voice/speech and ultra-low power always-on/sensing applications for multiple IoT markets. For connectivity, we offer the industry's most widely adopted IPs for Bluetooth (Smart and Smart Ready), Wi-Fi (802.11 b/g/n/ac up to 4x4) and serial storage (SATA and SAS). Our technologies are widely licensed and power many of the world's leading semiconductor and original equipment manufacturer (OEM) companies. One in three handsets sold worldwide is powered by CEVA. To date, more than 6.5 billion CEVA-powered devices have shipped, illustrating the strong market deployment of our technology.

Our DSPs power many leading handset OEMs in the world today, including Coolpad, HTC, Huawei, Lenovo, LG, Meizu, Micromax, Samsung, Xiaomi and ZTE, as well as hundreds of local handset manufacturers in China and India. Based on internal data and Strategy Analytics' provisional worldwide shipment data, CEVA's worldwide market share of handset baseband chips that incorporate our technologies was approximately 29% of the worldwide shipment volume in the second quarter of 2015.

In July 2014, we acquired RivieraWaves SAS ( RivieraWaves ), a privately-held, French-based company and a leading provider of wireless connectivity intellectual property for Wi-Fi and Bluetooth technologies. We agreed to pay an aggregate of \$18,378,000 to acquire RivieraWaves with \$14,678,000 paid at closing of the acquisition and the remaining amount of \$3,700,000 is payable upon the satisfaction of certain milestones (the Contingent Consideration ). During the first quarter of 2015, we paid \$2,700,000 of the Contingent Consideration. During the second quarter of 2015, we paid the remaining \$1,000,000 of the Contingent Consideration. In addition, we established an employee retention plan for RivieraWaves' employees at an expense of approximately \$3.4 million to be payable on a semi-annual basis for a period of two years after closing of the acquisition. As of September 30, 2015, we paid \$971,000 of the employee retention plan expenses.

We believe the adoption of our DSP cores, software and connectivity IPs for IoT applications continues to progress. Applications for such markets include smartphones, tablets, smart home appliances, wearables, surveillance, connected car, drones, industrial and medical. During the third quarter of 2015, we concluded eight licensing deals, five of which were for our connectivity IPs and three for our DSP cores, platforms and software. These customers will incorporate our technology into smartphones, tablets, small cell base stations and various IoT devices and wearables.

We anticipate our licensing expansion strategy will result in future royalty growth and a more diversified royalty base.

We believe the following key elements represent significant growth drivers for the company:

CEVA is firmly established in the largest space in the semiconductor industry – baseband for mobile handsets. In particular, our presence in the 3G & LTE smartphone markets continue to grow as our customers targeting those markets are gaining market share at the expense of the incumbents. As a testament to this, our customers shipped twenty seven million LTE chipsets in the second quarter of 2015, more than double the volume shipped in the first quarter of 2015. We anticipate our market share will continue to grow. The royalty we derive from smartphones is higher on average than that of feature phones, so we are set to benefit as handset markets around the world continue to transition and shift away from feature phones to smartphones.

Our competitive edge in software-defined radio technology for next generation LTE and Wi-Fi technologies in base stations, and the inherent low cost and power performance balance of our technologies, put us in a strong position to simultaneously capitalize on mass market adoption of such technologies and address multiple market sectors, including small cells, macrocells, routers and machine-to-machine.

---

**Table of Contents**

Together with our presence in these new non-handset LTE baseband markets, our acquisition of RivieraWaves allows us to expand further into Internet-of-Things applications. This acquisition substantially increased our overall addressable market to cover all categories of Bluetooth and Wi-Fi connected devices. Our addressable market size is expected to be 35 billion devices by 2020, per recent data from ABI Research. Already, shipments of products incorporating our Bluetooth IP are starting to become sizeable, with more than 31 million Bluetooth chips shipped in the second quarter by our customers. We anticipate this growth in Bluetooth IP to continue.

The market potential for intelligent audio processing required for IoT applications, including mobile, automotive and consumer devices, offers an additional growth segment for the company. Our proven track record in audio/voice, with more than 4.5 billion audio chips shipped to date, puts us in a strong position to power audio roadmaps across this new range of addressable end markets.

The market potential for vision processing in IoT applications offers another additional growth segment for the company. Our CEVA-XM4 intelligent vision processor achieves up to 8x performance improvement with 2.5 greater energy efficiency, compared to the previous generation CEVA-MM3101, providing a highly compelling product offering for any camera-enabled device such as smartphones, tablets, automotive safety (ADAS) robotics, security and surveillance, augmented reality (AR) and virtual reality (VR), drones, and signage. Per ABI Research, one billion cameras were shipped in 2012, and this number is predicted to grow to 2.7 billion by 2017. 80% of this volume is attributable to smartphones, where we already have a strong foothold through our other technologies. Mobile OEMs are looking for new DSLR features such as smarter autofocus, better picture using super resolution algorithms, and better image capture in low-light environments. Furthermore, with the addition of video analytics support, cameras will enable new services like augmented reality, gesture recognition and advanced safety capabilities in cars. We see this new revolution in vision processing as an opportunity for us to expand our footprint in smartphones and further into tablets, drones, surveillance and automotive applications.

As a result of our diversification strategy beyond handset baseband for handsets and our progress in addressing these new markets under the umbrella of the Internet-of-Things, we expect significant growth in our unit shipments for non-handset baseband applications over the next few years, up from approximately 86 million royalty-bearing units annually in 2014 to 700 to 900 million units annually by 2018. This will be in addition to our existing handset baseband business, which we believe will continue to be a significant growth driver for us.

Notwithstanding the various growth opportunities we have outlined above, our business operates in a highly competitive and cyclical environment. The maintenance of our competitive position and our future growth are dependent on our ability to adapt to ever-changing technologies, short product life cycles, evolving industry standards, changing customer needs and the trend towards Internet-of-Things, handset baseband, connectivity, and voice, audio and video convergence in the markets that we operate. Also, our business relies significantly on revenues derived from a limited number of customers. The discontinuation of product lines or market sectors that incorporate our technology by our significant customers or a change in direction of their business and our inability to adapt our technology to their new business needs could have material negative implications for our future royalty revenues. For example, the shift away from feature phones by our customer Intel and the exiting of the handset baseband market by our customer Broadcom and ST have negatively impacted our royalty revenues. Moreover, competition has historically increased pricing pressures for our products and decreased our average selling prices. Royalty payments under our existing license agreements also could be lower than currently anticipated for a variety of reasons, including decreased royalty rates triggered by larger volume shipments, lower royalty rates negotiated with customers due to competitive pressure or consolidation among our customers. Some of our competitors have reduced their licensing and royalty fees to

attract customers and expand their market share. In order to penetrate new markets and maintain our market share with our existing products, we may need to offer our products in the future at lower prices which may result in lower profits. In addition, our future growth is dependent not only on the continued success of our existing products but also the successful introduction of new products, which requires the dedication of resources into research and development which in turn may increase our operating expenses. Furthermore, since our products are incorporated into end products of our OEM and semiconductor customers, our business is very dependent on their ability to achieve market acceptance of their end products in the handset and consumer electronic markets, which are similarly very competitive. In addition, macroeconomic trends may significantly affect our operating results. For example, consolidation among our customers may negatively affect our revenue source, increase our existing customers negotiation leverage and make us more dependent on a limited number of customers. Also, since we derive a significant portion of our revenues from the handset market, any negative trends in that market would adversely affect our financial results.

---

**Table of Contents**

Moreover, the semiconductor and consumer electronics industries remain volatile, which makes it extremely difficult for our customers and us to accurately forecast financial results and plan for future business activities. Our license arrangements have not historically provided for substantial ongoing license payments so revenue recognized from licensing arrangements vary significantly from period to period, depending on the number and size of deals closed during a quarter, and is difficult to predict. Moreover, our royalty revenues are based on the sales of products incorporating the semiconductors or other products of our customers, and as a result we do not have direct access to information that will help us anticipate the timing and amount of future royalties. We have very little visibility into the timetable of product shipments incorporating our technology by our customers. As a result, our past operating results should not be relied upon as an indication of future results.

**RESULTS OF OPERATIONS***Total Revenues*

Total revenues were \$16.2 million and \$43.4 million for the third quarter and first nine months of 2015, respectively, representing an increase of 15% and 17%, respectively, as compared to the corresponding periods in 2014. The increase in total revenues for the third quarter of 2015 principally reflected higher royalty revenues. The increase in total revenues for the first nine months of 2015 principally reflected higher licensing and related revenues and higher royalty revenues.

Five largest customers accounted for 76% and 57% of our total revenues for the third quarter and first nine months of 2015, respectively, as compared to 77% and 58% for the comparable periods in 2014. Three customers accounted for 45%, 11% and 13% of our total revenues for the third quarter of 2015, as compared to three customers that accounted for 23%, 28% and 15% of our total revenues for the third quarter of 2014. One customer accounted for 33% of our total revenues for the first nine months of 2015, as compared to two customers that accounted for 22% and 11% of our total revenues for the first nine months of 2014. Sales to Spreadtrum represented 45% and 33% of our total revenues for the third quarter and first nine months of 2015, respectively, as compared to 23% and 22% for the comparable periods in 2014. Generally, the identity of our other customers representing 10% or more of our total revenues varies from period to period, especially with respect to our licensing customers as we generate licensing revenues generally from new customers on a quarterly basis. With respect to our royalty revenues, two royalty paying customers each represented 10% or more of our total royalty revenues for both the third quarter and first nine months of 2015, and collectively represented 72% and 71% of our total royalty revenues for the third quarter and first nine months of 2015, respectively. Two royalty paying customers each represented 10% or more of our total royalty revenues for the third quarter of 2014, and collectively represented 73% of our total royalty revenues for the third quarter of 2014. Three royalty paying customers each represented 10% or more of our total royalty revenues for the first nine months of 2014, and collectively represented 79% of our total royalty revenues for the first nine months of 2014. We expect that a significant portion of our future revenues will continue to be generated by a limited number of customers. The concentration of our customers is explainable in part by consolidation in the semiconductor industry.

Our total revenues derived from the handset baseband market represented 73% and 58% of our total revenues for the third quarter and first nine months of 2015, respectively, as compared to 45% and 53% for the comparable periods in 2014. During the first nine months of 2015, we concluded more non-handset baseband-related licensing deals than prior periods and generated higher licensing and related revenues from handset customers. In addition, we generated significantly higher royalty revenues from handset baseband shipped products during the first nine months of 2015 as compared to the same period in 2014.

*Licensing and Related Revenues*

Licensing and related revenues were \$8.6 million and \$24.1 million for the third quarter and first nine months of 2015, respectively, representing a decrease of 1% and an increase of 15%, respectively, as compared to the corresponding periods in 2014. The increase in licensing and related revenues for the first nine months of 2015 reflected higher revenues from both non-handset baseband markets and applications for our connectivity IP products, mainly Bluetooth IP acquired from RivieraWaves, and handset baseband license agreements for our DSP-based technologies. Overall, we continue to experience throughout 2015, similar to 2014, strong licensing environment for our products.

Licensing and related revenues accounted for 53% and 56% of our total revenues for the third quarter and first nine months of 2015, respectively, compared to 62% and 57% for the comparable periods of 2014. During the third quarter of 2015, we concluded 8 new licensing deals. Of the 8 new licensing deals signed during the quarter, one was with a first time customer, and six were for non-handset baseband applications. Three such deals were for CEVA DSP cores, platforms and software, and five were for CEVA connectivity IPs. Target end products included smartphones, tablets, small cell base station and a variety of connected devices. Geographically, three of the deals concluded were in the the U.S, one was in Europe and four were in the Asia Pacific region. Our licensing business is progressing in line with our expectations with a good pipeline and diverse customer base and target markets.

#### *Royalty Revenues*

Royalty revenues were \$7.6 million and \$19.3 million for the third quarter and first nine months of 2015, respectively, representing an increase of 42% and 21%, as compared to the corresponding periods in 2014. Royalty revenues accounted for 47% and 44% of our total revenues for the third quarter and first nine months of 2015, respectively, as compared to 38% and 43% for the



**Table of Contents**

comparable periods of 2014. The increase in royalty revenues for the third quarter and first nine months of 2015 reflected exceptional royalty revenue growth from LTE shipments in the cellular baseband space. The growth of LTE shipments powered by our DSPs has accelerated noticeably. The reasons for our revenue increase derived from LTE are twofold. The first is the growth of LTE in China, driven by the emergence of smartphones delivering quality performance and features at a price point that facilitates mass market adoption. The second trend relates to the internalization of the smartphone SoC design at major OEMs to gaining pricing and supply chain control.

Our customers reported sales of 225 million and 664 million chipsets incorporating our technologies for the third quarter and first nine months of 2015, respectively, as compared to 216 million and 626 million for the comparable periods of 2014. Of these volumes, 46 million and 117 million were attributed to non-handset baseband for the third quarter and first nine months of 2015, respectively, as compared to 21 million and 53 million for the comparable periods of 2014. This volume increase is attributable to a significant increase in Bluetooth product shipments (which also bear lower royalty average selling prices than the handset baseband products). Handset baseband-related royalties increased in the third quarter and first nine months of 2015, as compared to the comparable periods in 2014, due to the reasons explained above regarding LTE ramp-up and higher royalty ASPs. The five largest royalty-paying customers accounted for 88% and 87% of our total royalty revenues for the third quarter and first nine months of 2015, respectively, as compared to 91% and 87% for the comparable periods of 2014.

*Geographic Revenue Analysis*

	Nine months 2015		Nine months 2014		Third Quarter 2015		Third Quarter 2014	
	(in millions, except percentages)				(in millions, except percentages)			
United States	\$ 8.3	19%	\$ 8.6	23%	\$ 3.4	21%	\$ 1.9	13%
Europe and Middle East	\$ 5.2	12%	\$ 4.3	12%	\$ 1.6	10%	\$ 0.9	7%
Asia Pacific (1) (2) (3)	\$ 29.9	69%	\$ 24.1	65%	\$ 11.2	69%	\$ 11.3	80%
(1) China	\$ 21.0	48%	\$ 14.5	39%	\$ 8.4	52%	\$ 8.0	57%
(2) Taiwan	\$ *)	*)	\$ 3.7	10%	\$ *)	*)	\$ *)	*)
(3) S. Korea	\$ *)	*)	\$ *)	*)	\$ 2.1	13%	\$ 2.2	16%

\*) Less than 10%

Due to the nature of our license agreements and the associated potential large individual contract amounts, the geographic split of revenues both in absolute dollars and percentage terms generally varies from quarter to quarter.

*Cost of Revenues*

Cost of revenues were \$1.3 million and \$4.0 million for the third quarter and first nine months of 2015, respectively, as compared to \$1.3 million and \$3.7 million for the comparable periods of 2014. Cost of revenues accounted for 8% and 9% of our total revenues for the third quarter and first nine months of 2015, respectively, as compared to 9% and 10% for the comparable periods of 2014. The increase for the first nine months of 2015 principally reflected higher payments to the Office of the Chief Scientist of Israel (the OCS) and higher subcontractors costs. Included in cost of revenues for the third quarter and first nine months of 2015 was a non-cash equity-based compensation expense of \$34,000 and \$111,000, respectively, as compared to \$45,000 and \$159,000 for the comparable periods of 2014.

*Gross Margin*

Gross margin for the third quarter and first nine months of 2015 was 92% and 91%, respectively, compared to 91% and 90% for the comparable periods of 2014. The increase for both the third quarter and first nine months of 2015 mainly reflected higher overall revenues.

*Operating Expenses*

Total operating expenses were \$11.5 million and \$35.3 million for the third quarter and first nine months of 2015, respectively, as compared to \$11.6 million and \$32.2 million for the comparable periods of 2014. The slight decrease in total operating expenses for the third quarter of 2015 principally reflected lower salary and related costs and lower lower commission expenses, partially offset by lower research grants received from the OCS. The increase in total operating expenses for the first nine months of 2015 principally reflected: (1) higher salary and related costs, which mainly included salary and related costs associated with the RivieraWaves employees and retention costs for the RivieraWaves employees; (2) higher project-related expenses; and (3) amortization charges for intangible assets acquired from RivieraWaves, partially offset by French research tax benefits applicable to Crédit Impôt Recherche ( CIR ) and lower non-cash equity-based compensation expenses.

---

**Table of Contents***Research and Development Expenses, Net*

Our research and development expenses, net, were \$6.6 million and \$21.2 million for the third quarter and first nine months of 2015, respectively, as compared to \$6.5 million and \$18.5 million for the comparable periods of 2014. The net increase for the third quarter of 2015 principally reflected additional number of personnel, lower research grants received from the OCS and higher project-related expenses, partially offset by lower currency exchange expenses related to salary and related costs as a result of the gain of the U.S. dollar against the Israeli NIS. The net increase for the first nine months of 2015 principally reflected: (1) higher salary and related costs, which mainly included salary and related costs, as well as retention costs, associated with the RivieraWaves employees; and (2) higher project-related expenses, partially offset by research tax benefits applicable to CIR, lower currency exchange expenses related to salary and related costs as a result of the gain of the U.S. dollar against the Israeli NIS, and lower non-cash equity-based compensation expenses. Included in research and development expenses for the third quarter and first nine months of 2015 were non-cash equity-based compensation expenses of \$438,000 and \$1,323,000, respectively, as compared to \$441,000 and \$1,575,000 for the comparable periods of 2014. Research and development expenses as a percentage of our total revenues were 40% and 46% for the third quarter and first nine months of 2015, respectively, as compared to 46% and 50% for the comparable periods of 2014.

The number of research and development personnel was 181 at September 30, 2015, compared to 171 at September 30, 2014.

*Sales and Marketing Expenses*

Our sales and marketing expenses were \$2.4 million and \$7.4 million for the third quarter and first nine months of 2015, respectively, as compared to \$2.6 million and \$7.2 million for the comparable periods of 2014. The net decrease for the third quarter of 2015 primarily reflected lower commission expenses. The net increase for the first nine months of 2015 primarily reflected higher salary and related costs, partially due to additional number of personnel, higher commission expenses and higher marketing and trade shows activities, offset by lower non-cash equity-based compensation expenses. Included in sales and marketing expenses for the third quarter and first nine months of 2015 were non-cash equity-based compensation expenses of \$151,000 and \$395,000, respectively, as compared to \$185,000 and \$753,000 for the comparable periods of 2014. Sales and marketing expenses as a percentage of our total revenues were 15% and 17% for the third quarter and first nine months of 2015, respectively, as compared to 19% for both the comparable periods of 2014.

The total number of sales and marketing personnel was 32 at September 30, 2015, compared to 30 at September 30, 2014.

*General and Administrative Expenses*

Our general and administrative expenses were \$2.2 million and \$5.8 million for the third quarter and first nine months of 2015, respectively, as compared to \$2.2 million and \$6.1 million for the comparable periods of 2014. The net decrease for the first nine months of 2015 primarily reflected lower non-cash equity-based compensation expenses, partially offset by higher salary and related costs. Included in general and administrative expenses for the third quarter and first nine months of 2015 were non-cash equity-based compensation expenses of \$496,000 and \$966,000, respectively, as compared to \$451,000 and \$1,496,000 for the comparable periods of 2014. General and administrative expenses as a percentage of our total revenues were 13% for both the third quarter and first nine months of 2015, as compared to 16% and 17% for the comparable periods of 2014.

The number of general and administrative personnel was 22 at both September 30, 2015 and September 30, 2014.

*Amortization of intangible assets*

Our amortization charges were \$0.3 million and \$1.0 million for the third quarter and first nine months of 2015, respectively, as compared to \$0.3 million for both the comparable periods of 2014. The charges were incurred in connection with the amortization of intangible assets associated with the acquisition of RivieraWaves in July 2014. As of September 30, 2015, the net amount of intangible assets was \$4.5 million.

**Table of Contents****Financial Income, Net (in millions)**

	Nine months 2015	Nine months 2014	Third Quarter 2015	Third Quarter 2014
<b>Financial income, net</b>	\$ 0.64	\$ 0.94	\$ 0.40	\$ 0.06
<i>of which:</i>				
Interest income and gains and losses from marketable securities, net	\$ 1.19	\$ 1.31	\$ 0.40	\$ 0.38
Foreign exchange loss	\$ (0.45)	\$ (0.29)	\$	\$ (0.24)
Accretion of Contingent Consideration	\$ (0.10)	\$ (0.08)	\$	\$ (0.08)

Financial income, net, consists of interest earned on investments, gains and losses from sale of marketable securities, accretion (amortization) of discounts (premiums) on marketable securities, foreign exchange movements and changes in fair value related to contingent consideration as part of the acquisition of RivieraWaves.

The increase in interest income and gains and losses from marketable securities, net, during the third quarter of 2015, principally reflected higher yields. The decrease in interest income and gains and losses from marketable securities, net, during the first nine months of 2015, principally reflected less combined cash, bank deposits and marketable securities balances held.

We review our monthly expected major non-U.S. dollar denominated expenditures and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations. However, our Euro cash balances increased significantly beyond our ordinary course Euro business liabilities as a result of the acquisition of RivieraWaves because we acquired cash balances of RivieraWaves on hand at the time of closing of the transaction. This has resulted in an increase in foreign exchange loss during both the first nine months of 2015 and 2014, and during the third quarter of 2014, due to the devaluation of our Euro cash balances as the U.S. dollar strengthened significantly during those periods as compared to the Euro.

**Other Loss**

In August 2014, we received an initial consideration of 757 Euro (approximately \$1,011) when Antcor Advanced Network Technologies S.A. ( Antcor ), a company in which we had a minority investment, was acquired. In October 2014, we received an additional 17 Euro (approximately \$21) and in August 2015 we received 99 Euro (approximately \$111), which amount was held by the buyer to secure Antcor's indemnification claims. Pursuant to the acquisition agreement, we may receive additional proceeds from the buyer within five years after closing of the acquisition based on achievement of certain performance and other milestones by Antcor. During the three and nine months ended September 30, 2014, we recorded a loss of \$404 from the sale of our investment in Antcor.

**Provision for Income Taxes**

Our income tax expenses were \$0.6 million and \$0.8 million for the third quarter and first nine months of 2015, respectively, as compared to \$0.2 million and \$0.5 million for the comparable periods of 2014. The increase for the third quarter of 2015 primarily reflected higher income before taxes on income, as well as lower tax benefit as a result of a significantly higher valuation allowance on deferred tax assets of our U.S parent corporation. The increase for the first nine months of 2015 primarily reflected higher income before taxes on income as well as lower tax benefit as a result of a significantly higher valuation allowance on deferred tax assets of our U.S parent corporation, partially offset by income tax benefit related to the RivieraWaves acquisition. Currently, our Israeli and Irish subsidiaries are

taxed at rates substantially lower than U.S. tax rates.

Our Irish subsidiary qualified for a 12.5% tax rate on its trade. Interest income generated by our Irish subsidiary is taxed at a rate of 25%. Our French subsidiary qualified for a 33.3% tax rate on its profits.

Our Israeli subsidiary is entitled to various tax benefits by virtue of the Approved Enterprise and/or Benefited Enterprise status granted to its eight investment programs, as defined by the Israeli Investment Law. In accordance with the Investment Law, our Israeli subsidiary's first six investment programs were subject to corporate tax rate of 26.5% for the first nine months of 2015, and our Israeli subsidiary's seventh and eighth investment programs were subject to corporate tax rate of 10% for the first nine months of 2015. However, our Israeli subsidiary received an approval for the erosion of tax basis with respect to its second, third, fourth, fifth and sixth investment programs, and this resulted in an increase in the taxable income attributable to the seventh and eighth investment programs, which were subject to a reduced tax rate of 10% for the first nine months of 2015. The tax benefits under our Israeli subsidiary's active investment programs are scheduled to gradually expire starting in 2017.

To maintain our Israeli subsidiary's eligibility for the above tax benefits, it must continue to meet certain conditions under the Investment Law. Should our Israeli subsidiary fail to meet such conditions in the future, these benefits would be cancelled and it would be subject to corporate tax in Israel at the standard corporate rate and could be required to refund tax benefits already received, with interest and adjustments for inflation based on the Israeli consumer price index.

---

**Table of Contents**

***Critical Accounting Policies and Estimates***

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with revenue recognition, fair value of financial instruments, equity-based compensation and income taxes have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

See our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 13, 2015, for a discussion of additional critical accounting policies and estimates. There have been no changes in our critical accounting policies as compared to what was previously disclosed in the Form 10-K for the year ended December 31, 2014.

**LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2015, we had approximately \$16.3 million in cash and cash equivalents, \$18.5 million in short term bank deposits, \$48.3 million in marketable securities, and \$46.3 million in long term bank deposits, totaling \$129.4 million, as compared to \$129.9 million at December 31, 2014. The decrease for the first nine months of 2015 principally reflected cash used for the acquisition of RivieraWaves and the repurchase of 428,590 shares of common stock, partially offset by net cash provided by operating activities and cash proceeds from exercise of stock-based awards. During the first nine months of 2015, we invested \$72.5 million of cash in bank deposits and marketable securities with maturities up to 43 months from the balance sheet date. In addition, during the same period, bank deposits and marketable securities were sold or redeemed for cash amounting to \$72.3 million. All of our marketable securities are classified as available-for-sale. The purchase and sale or redemption of available-for-sale marketable securities are considered part of investing cash flow. Available-for-sale marketable securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity, net of taxes. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the interim condensed consolidated statements of income. We did not recognize any other-than-temporarily-impaired charges on marketable securities during the first nine months of 2015. For more information about our marketable securities, see Notes 4 to the attached Notes to the Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2015.

Bank deposits are classified as short-term bank deposits and long-term bank deposits. Short-term bank deposits are deposits with maturities of more than three months but no longer than one year from the balance sheet date, whereas long-term bank deposits are deposits with maturities of more than one year as of the balance sheet date. Bank deposits are presented at their cost, including accrued interest, and purchases and sales are considered part of cash flows from investing activities.

***Operating Activities***

Cash provided by operating activities for the first nine months of 2015 was \$7.8 million and consisted of net income of \$4.0 million, adjustments for non-cash items of \$5.6 million, and changes in operating assets and liabilities of \$1.8 million. Adjustments for non-cash items primarily consisted of \$1.8 million of depreciation and amortization of

intangible assets, \$2.8 million of equity-based compensation expenses, \$0.8 million of amortization of premiums on available-for-sale marketable securities and \$0.2 million of unrealized foreign exchange loss. The decrease in cash from changes in operating assets and liabilities primarily consisted of an increase in trade receivables of \$0.8 million, an increase in deferred tax assets, net, of \$0.7 million, a decrease in accrued expenses and other payables of \$0.4 million, and a decrease in accrued payroll and related benefits of \$0.4 million, partially offset by an increase in deferred revenues of \$0.4 million.

Cash provided by operating activities for the first nine months of 2014 was \$6.1 million and consisted of net income of \$1.1 million, adjustments for non-cash items of \$6.5 million, and changes in operating assets and liabilities of \$1.5 million. Adjustments for non-cash items primarily consisted of \$0.9 million of depreciation and amortization of intangible assets, \$4.0 million of equity-based compensation expenses, \$0.9 million of amortization of premiums on available-for-sale marketable securities, \$0.4 million of unrealized foreign exchange loss and \$0.4 of loss on sale of investment in Antcor. The decrease in cash from changes in operating assets and liabilities primarily consisted of an increase in trade receivables of \$2.3 million, an increase in accrued interest on bank deposits of \$0.3, an increase in deferred tax assets, net, of \$0.5 million, and a decrease in trade payables of \$0.3 million, partially offset by an increase in deferred revenues of \$1.6 million, and a decrease in prepaid expenses and other current assets of \$0.3 million.



---

**Table of Contents**

Cash flows from operating activities may vary significantly from quarter to quarter depending on the timing of our receipts and payments. Our ongoing cash outflows from operating activities principally relate to payroll-related costs and obligations under our property leases and design tool licenses. Our primary sources of cash inflows are receipts from our accounts receivable, to some extent, funding from the OCS, CIR and interest earned from our cash, deposits and marketable securities. The timing of receipts of accounts receivable from customers is based upon the completion of agreed milestones or agreed dates as set out in the contracts.

*Investing Activities*

Net cash used in investing activities for the first nine months of 2015 was \$1.3 million, compared to \$0.5 million of net cash provided by investing activities for the comparable period of 2014. We had a cash outflow of \$26.2 million and a cash inflow of \$24.9 million with respect to investments in marketable securities during the first nine months of 2015, as compared to a cash outflow of \$24.4 million and a cash inflow of \$52.4 million with respect to investments in marketable securities during the first nine months of 2014 (to some extent, to finance the \$13.5 million cash payment, net, made to RivieraWaves in connection with the acquisition). For the first nine months of 2015, we had net proceeds of \$1.1 million from bank deposits, as compared to net investment of \$14.2 million in bank deposits for the comparable period of 2014. We had a cash outflow of \$1.1 million and \$0.8 million during the first nine months of 2015 and 2014, respectively, from purchase of property and equipment. We had a cash inflow of \$0.1 million and \$1.0 million during the first nine months of 2015 and 2014, respectively, from sale of investment in Antcor.

*Financing Activities*

Net cash used in financing activities for the first nine months of 2015 was \$6.4 million, compared to \$16.3 million of net cash used in financing activities for the comparable period of 2014.

In August 2008, we announced that our board of directors approved a share repurchase program for up to one million shares of common stock which was further extended by an additional four million shares in 2010 and 2013. In October 2014, our board of directors authorized the repurchase of an additional one million shares of common stock pursuant to Rule 10b-18 of the Exchange Act. During the first nine months of 2015, we repurchased 428,590 shares of common stock pursuant to our share repurchase program, at an average purchase price of \$19.03 per share, for an aggregate purchase price of \$8.2 million. During the first nine months of 2014, we repurchased 1,227,148 shares of common stock pursuant to our share repurchase program, at an average purchase price of \$15.20 per share, for an aggregate purchase price of \$18.7 million.

During the first nine months of 2015, we received \$5.4 million from the exercise of stock-based awards, as compared to \$2.4 million received for the comparable period of 2014. We had a cash outflow of \$3.7 million during the first nine months of 2015 to pay the remaining Contingent Consideration in connection with the acquisition of RivieraWaves.

We believe that our cash and cash equivalents, short-term bank deposits and marketable securities, along with cash from operations, will provide sufficient capital to fund our operations for at least the next 12 months. We cannot provide assurances, however, that the underlying assumed levels of revenues and expenses will prove to be accurate.

In addition, as part of our business strategy, we occasionally evaluate potential acquisitions of businesses, products and technologies and minority equity investments. Accordingly, a portion of our available cash may be used at any time for the acquisition of complementary products or businesses or minority equity investments. Such potential transactions may require substantial capital resources, which may require us to seek additional debt or equity financing. We cannot assure you that we will be able to successfully identify suitable acquisition or investment

candidates, complete acquisitions or investments, integrate acquired businesses into our current operations, or expand into new markets. Furthermore, we cannot provide assurances that additional financing will be available to us in any required time frame and on commercially reasonable terms, if at all. See Risk Factors We may seek to expand our business in ways that could result in diversion of resources and extra expenses. for more detailed information.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

A majority of our revenues and a portion of our expenses are transacted in U.S. dollars and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars. However, the majority of our expenses are denominated in currencies other than the U.S. dollar, principally the NIS and the Euro. Increases in volatility of the exchange rates of currencies other than the U.S. dollar versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur when remeasured into U.S. dollars. We review our monthly expected non-U.S. dollar denominated expenditures and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations. However, during the second half of 2014, our Euro cash balances increased significantly beyond our ordinary course Euro business liabilities as a result of the acquisition of RivieraWaves. This has resulted in a foreign exchange loss of \$3,000 and \$451,000 for the third quarter and first nine months of 2015, respectively, and a foreign exchange loss of \$234,000 and \$291,000 for the comparable periods of 2014. The foreign exchange losses during both the first nine months of 2015 and 2014 principally reflected a significant devaluation of our Euro cash balances as the U.S. dollar strengthened significantly as compared to the Euro.

---

**Table of Contents**

As a result of currency fluctuations and the remeasurement of non-U.S. dollar denominated expenditures to U.S. dollars for financial reporting purposes, we may experience fluctuations in our operating results on an annual and quarterly basis. To protect against the increase in value of forecasted foreign currency cash flow resulting from salaries paid in currencies other than the U.S. dollar during the year, we follow a foreign currency cash flow hedging program. We hedge portions of the anticipated payroll for our non-U.S. employees denominated in currencies other than the U.S. dollar for a period of one to twelve months with forward and option contracts. During the third quarter and first nine months of 2015, we recorded accumulated other comprehensive loss of \$175,000 and accumulated other comprehensive gain of \$70,000, respectively, from our forward and option contracts, net of taxes, with respect to anticipated payroll expenses for our non-U.S. employees. During the third quarter and first nine months of 2014, we recorded accumulated other comprehensive loss of \$196,000 and \$162,000, respectively, from our forward and option contracts, net of taxes, with respect to anticipated payroll expenses for our non-U.S. employees. As of September 30, 2015, the amount of other comprehensive gain from our forward and option contracts, net of taxes, was \$13,000, which will be recorded in the consolidated statements of income during the following six months. We recognized a net gain of \$59,000 and \$58,000 for the third quarter and first nine months of 2015, respectively, and a net loss of \$59,000 and \$35,000 for the comparable periods of 2014, related to forward and options contracts. We note that hedging transactions may not successfully mitigate losses caused by currency fluctuations. We expect to continue to experience the effect of exchange rate and currency fluctuations on an annual and quarterly basis.

The majority of our cash and cash equivalents are invested in high grade certificates of deposits with major U.S., European and Israeli banks. Generally, cash and cash equivalents and bank deposits may be redeemed and therefore minimal credit risk exists with respect to them. Nonetheless, deposits with these banks exceed the Federal Deposit Insurance Corporation ( FDIC ) insurance limits or similar limits in foreign jurisdictions, to the extent such deposits are even insured in such foreign jurisdictions. While we monitor on a systematic basis the cash and cash equivalent balances in the operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit our funds fails or is subject to other adverse conditions in the financial or credit markets. To date, we have experienced no loss of principal or lack of access to our invested cash or cash equivalents; however, we can provide no assurance that access to our invested cash and cash equivalents will not be affected if the financial institutions that we hold our cash and cash equivalents fail.

We hold an investment portfolio consisting principally of corporate bonds. We intend, and have the ability, to hold such investments until recovery of temporary declines in market value or maturity. Accordingly, as of September 30, 2015, we believe the losses associated with our investments are temporary and no impairment loss was recognized during the first nine months of 2015. However, we can provide no assurance that we will recover present declines in the market value of our investments.

Interest income and gains and losses from marketable securities, net, were \$0.40 million and \$1.19 million for the third quarter and first nine months of 2015, respectively, as compared to \$0.38 million and \$1.31 million for the comparable periods of 2014. The increase in interest income and gains and losses from marketable securities, net, during the third quarter of 2015, principally reflected higher yields. The decrease in interest income and gains and losses from marketable securities, net, during the first nine months of 2015 principally reflected less combined cash, bank deposits and marketable securities balances held.

We are exposed primarily to fluctuations in the level of U.S. interest rates. To the extent that interest rates rise, fixed interest investments may be adversely impacted, whereas a decline in interest rates may decrease the anticipated interest income for variable rate investments. We typically do not attempt to reduce or eliminate our market exposures on our investment securities because the majority of our investments are short-term. We currently do not have any derivative instruments but may put them in place in the future. Fluctuations in interest rates within our investment portfolio have not had, and we do not currently anticipate such fluctuations will have, a material effect on our

financial position on an annual or quarterly basis.

**Item 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2015.

There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

---

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

We are not a party to any litigation or other legal proceedings that we believe could reasonably be expected to have a material effect on our business, results of operations and financial condition.

**Item 1A. RISK FACTORS**

*This Form 10-Q contains forward-looking statements concerning our future products, expenses, revenue, liquidity and cash needs as well as our plans and strategies. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Numerous factors could cause our actual results to differ significantly from the results described in these forward-looking statements, including the following risk factors.*

There are no material changes to the Risk Factors described under the title Factors That May Affect Future Performance in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 other than (1) changes to the Risk Factor below entitled: The markets in which we operate are highly competitive, and as a result we could experience a loss of sales, lower prices and lower revenues; (2) changes to the Risk Factor below entitled: We rely significantly on revenue derived from a limited number of customers who contribute to our royalty and license revenues; (3) changes to the Risk Factor below entitled Royalty rates could decrease for existing and future license agreements which could materially adversely affect our operating results; (4) changes to the Risk Factor below entitled We generate a significant amount of our total revenues from the handset baseband market and our business and operating results may be materially adversely affected if we do not continue to succeed in these highly competitive markets; (5) changes to the Risk Factor below entitled Because we have significant international operations, we may be subject to political, economic and other conditions relating to our international operations that could increase our operating expenses and disrupt our revenues and business; (6) changes to the Risk Factor below entitled Our research and development expenses may increase if the grants we currently receive from the Israeli government and European Union are reduced or withheld; (7) changes to the Risk Factor below entitled Our product development efforts are time-consuming and expensive and may not generate an acceptable return, if any; (8) deletion to the Risk Factor below entitled If we are unable to integrate the RivieraWaves acquisition successfully, our business may be harmed; and (9) addition of the risk factor entitled We are exposed to the credit risk of our customers, which could result in material losses.

**The markets in which we operate are highly competitive, and as a result we could experience a loss of sales, lower prices and lower revenues.**

The markets for the products in which our technology is incorporated are highly competitive. Aggressive competition could result in substantial declines in the prices that we are able to charge for our intellectual property. Many of our competitors are striving to increase their share of the growing DSP market and are reducing their licensing and royalty fees to attract customers. The following industry players and factors may have a significant impact on our competitiveness:

we compete directly in the DSP cores space with Verisilicon and Cadence;

we compete with CPU IP or configurable CPU IP (offering DSP configured CPU and/or DSP acceleration to their IP) providers, such as ARM Holdings, Imagination Technologies, Synopsys and Cadence;

we compete with internal engineering teams at companies such as Broadcom, Mediatek, Qualcomm, Samsung, Huawei, that may design programmable DSP core products in-house and therefore not license our technologies;

we compete in the SATA and SAS IP markets with several vendors, such as Silicon Image and Synopsys, that offer similar products, thereby leading to pricing pressures for both licensing and royalty revenues;

we compete in the digital photography and embedded vision market with Cadence, Synopsys, Freescale (resulting from its acquisition of Cognivue), Videantis, ARM (NEON technology) and GPU IP providers such as Imagination Technologies and Vivante; and

we compete in the audio and voice applications market with ARM Holdings, Synopsys, Cadence and Verisilicon.

In addition, we may face increased competition from smaller, niche semiconductor design companies in the future. Some of our customers also may decide to satisfy their needs through in-house design. We compete on the basis of DSP performance, overall chip cost, power consumption, flexibility, reliability, communication and multimedia software availability, design cycle time, tool chain, customer support, name recognition, reputation and financial strength. Our inability to compete effectively on these bases could have a material adverse effect on our business, results of operations and financial condition.

**Table of Contents**

**Our quarterly operating results fluctuate from quarter to quarter due to a variety of factors, including our lengthy sales cycle, and may not be a meaningful indicator of future performance.**

In some quarters our operating results could be below the expectations of securities analysts and investors, which could cause our stock price to fall. Factors that may affect our quarterly results of operations in the future include, among other things:

the gain or loss of significant licensees, partly due to our dependence on a limited number of customers generating a significant amount of quarterly revenues;

any delay in execution of any anticipated licensing arrangement during a particular quarter;

delays in revenue recognition for some license agreements based on percentage of completion of customized work;

the timing and volume of orders and production by our customers, as well as fluctuations in royalty revenues resulting from fluctuations in unit shipments by our licensees;

royalty pricing pressures and reduction in royalty rates due to an increase in volume shipments by customers, end-product price erosion and competitive pressures;

earnings or other financial announcements by our major customers that include shipment data or other information that implicates expectations for our future royalty revenues;

the mix of revenues among licensing and related revenues, and royalty revenues;

the timing of the introduction of new or enhanced technologies by us and our competitors, as well as the market acceptance of such technologies;

the discontinuation, or public announcement thereof, of product lines or market sectors that incorporate our technology by our significant customers;

our lengthy sales cycle and specifically in the third quarter of any fiscal year during which summer vacations slow down decision-making processes of our customers in executing contracts;

delays in the commercialization of end products that incorporate our technology;

currency fluctuations, mainly the Euro and the NIS versus the U.S. dollar;

fluctuations in operating expenses and gross margins associated with the introduction of new or enhanced technologies and adjustments to operating expenses resulting from restructurings;

the timing of Israeli R&D government grants from the Office of the Chief Scientist of Israel, EU grants and French research tax credits;

the timing of our payment of royalties to the Office of the Chief Scientist of Israel, which is impacted by the timing and magnitude of license agreements and royalty revenues derived from technologies that were funded by grant programs of the Office of the Chief Scientist;

statutory changes associated with research tax benefits applicable to French technology companies as a result of our acquisition of RivieraWaves SAS;

our ability to scale our operations in response to changes in demand for our technologies;

entry into new end markets that utilize our DSPs, connectivity IPs, software and platforms;

changes in our pricing policies and those of our competitors;

restructuring, asset and goodwill impairment and related charges, as well as other accounting changes or adjustments; and

general economic conditions, including the current economic conditions, and its effect on the semiconductor industry and sales of consumer products into which our technologies are incorporated.

Each of the above factors is difficult to forecast and could harm our business, financial condition and results of operations. Also, we license our technology to OEMs and semiconductor companies for incorporation into their end products for consumer markets, including handsets and consumer electronics products. The royalties we generate are reported by our customers and invoiced by us one quarter in arrears. As a result, our royalty revenues are affected by seasonal buying patterns of consumer products sold by our OEM customers that incorporate our technology and the market acceptance of such end products supplied by our OEM customers. The second quarter in any given year is usually a sequentially down quarter for us in relation to royalty revenues as this period represents lower post-Christmas first quarter consumer product shipments and little to no new introduction of handsets during the first quarter of the year. However, the magnitude of this second quarter decrease varies annually and has been impacted by global economic conditions, market share changes, exiting or refocusing of market sectors by our customers and the timing of introduction of new and existing handset devices powered by CEVA technology sold in any given quarter compared to the prior quarter.





## **Table of Contents**

Moreover, the semiconductor and consumer electronics industries remain volatile, which makes it extremely difficult for our customers and us to accurately forecast financial results and plan for future business activities. As a result, our past operating results should not be relied upon as an indication of future performance.

### **We rely significantly on revenues derived from a limited number of customers who contribute to our royalty and license revenues.**

We derive a significant amount of revenues from a limited number of customers. One customer, Spreadtrum, accounted for 45% and 33% of our total revenues for the third quarter and first nine months of 2015, respectively. With respect to our royalty revenues, two royalty paying customers each represented 10% or more of our total royalty revenues for both the third quarter and first nine months of 2015, and collectively represented 72% and 71% of our total royalty revenues for the third quarter and first nine months of 2015, respectively. We expect that a significant portion of our future revenues will continue to be generated by a limited number of customers. The loss of any significant royalty paying customer could adversely affect our near-term future operating results. Furthermore, consolidation among our customers may negatively affect our revenue source, increase our existing customers negotiation leverage and make us further dependent on a limited number of customers. Moreover, the discontinuation of product lines or market sectors that incorporate our technology by our significant customers or a change in direction of their business and our inability to adapt our technology to their new business needs could have material negative implications for our future royalty revenues.

### **Our business is dependent on licensing revenues which may vary period to period.**

License agreements for our DSP cores and platforms have not historically provided for substantial ongoing license payments so past licensing revenues may not be indicative of the amount of such revenues in any future period. We believe that there is a similar risk with the newly acquired RivieraWaves operations associated with Bluetooth and Wi-Fi connectivity technologies. Significant portions of our anticipated future revenues, therefore, will likely depend upon our success in attracting new customers or expanding our relationships with existing customers. However, revenues recognized from licensing arrangements vary significantly from period to period, depending on the number and size of deals closed during a quarter, and is difficult to predict. In addition, as we expand our business into the non-baseband markets, our licensing deals may be smaller but greater in volume which may further fluctuate our licensing revenues quarter to quarter. Our ability to succeed in our licensing efforts will depend on a variety of factors, including the performance, quality, breadth and depth of our current and future products, as well as our sales and marketing skills. In addition, some of our licensees may in the future decide to satisfy their needs through in-house design and production. Our failure to obtain future licensing customers would impede our future revenue growth and could materially harm our business.

### **Royalty rates could decrease for existing and future license agreements which could materially adversely affect our operating results.**

Royalty payments to us under existing and future license agreements could be lower than currently anticipated for a variety of reasons. Average selling prices for semiconductor products generally decrease over time during the lifespan of a product. In addition, there is increasing downward pricing pressures in the semiconductor industry on end products incorporating our technology, especially end products for the handsets and consumer electronics markets. As a result, notwithstanding the existence of a license agreement, our customers may demand that royalty rates for our products be lower than our historic royalty rates. We have in the past and may be pressured in the future to renegotiate existing license agreements with our customers. In addition, certain of our license agreements provide that royalty rates may decrease in connection with the sale of larger quantities of products incorporating our technology. Furthermore, our competitors may lower the royalty rates for their comparable products to win market

share which may force us to lower our royalty rates as well. As a consequence of the above referenced factors, as well as unforeseen factors in the future, the royalty rates we receive for use of our technology could decrease, thereby decreasing future anticipated revenues and cash flow. Royalty revenues were approximately 47% and 44% of our total revenues for the third quarter and first nine months of 2015, respectively. Therefore, a significant decrease in our royalty revenues could materially adversely affect our operating results.

Moreover, royalty rates may be negatively affected by macroeconomic trends or changes in products mix. For example, our royalty revenues decreased in 2013 and 2012 in connection with a significant decline in the average selling prices of low-cost feature phones. Furthermore, consolidation among our customers may increase the leverage of our existing customers to extract concessions from us in royalty rates. Moreover, changes in products mix such as an increase in lower royalty bearing products shipped in high volume like low-cost feature phones and Bluetooth-based products in lieu of higher royalty bearing products like LTE phones could lower our royalty revenues.

---

**Table of Contents**

**We generate a significant amount of our total revenues from the handset baseband market and our business and operating results may be materially adversely affected if we do not continue to succeed in these highly competitive markets.**

Our total revenues derived solely from the handset baseband market represented 73% and 58% of our total revenues for the third quarter and first nine months of 2015, respectively, as compared to 45% and 53% for the comparable periods in 2014. A significant portion of such revenues is derived from feature phones. Moreover, although next generation products generally have higher average selling prices, the shift towards CEVA-powered LTE products has been slower than expected and we can provide no assurances that the trend towards next generation products will continue on pace. Furthermore, we can provide no assurances that we will be successful in offsetting any decline in revenues from feature phones with increased revenues from next generation products such as low-cost smartphones or LTE phones. Any adverse change in our ability to compete and maintain our competitive position in the handset baseband market, including through the introduction by competitors of enhanced technologies that attract OEM customers that target those markets, would harm our business, financial condition and results of operations. Moreover, the handset baseband market is extremely competitive and are facing intense pricing pressures, and we expect that competition and pricing pressures will only increase. Furthermore, it can be very volatile with regards to volume shipments of different phones, standards and connected devices due to inventory build out or consumer demand changes or geographical macroeconomics, pricing changes and timing of introduction of new phones and products. Our existing OEM customers also may fail to introduce new handset devices that attract consumers, or encounter significant delays in developing, manufacturing or shipping new or enhanced products in those markets. The inability of our OEM customers to compete would result in lower shipments of products powered by our technologies which in turn would have a material adverse effect on our business, financial condition and results of operations. Since a significant portion of our revenues are derived from the handset baseband market, adverse conditions in this market would have a material adverse effect on our business, financial condition and results of operations.

**Because our IP solutions are components of end products, if semiconductor companies and electronic equipment manufacturers do not incorporate our solutions into their end products or if the end products of our customers do not achieve market acceptance, we may not be able to generate adequate sales of our products.**

We do not sell our IP solutions directly to end-users; we license our technology primarily to semiconductor companies and electronic equipment manufacturers, who then incorporate our technology into the products they sell. As a result, we rely on our customers to incorporate our technology into their end products at the design stage. Once a company incorporates a competitor's technology into its end product, it becomes significantly more difficult for us to sell our technology to that company because changing suppliers involves significant cost, time, effort and risk for the company. As a result, we may incur significant expenditures on the development of a new technology without any assurance that our existing or potential customers will select our technology for incorporation into their own product and without this design win, it becomes significantly difficult to sell our IP solutions. Moreover, even after a customer agrees to incorporate our technology into its end products, the design cycle is long and may be delayed due to factors beyond our control, which may result in the end product incorporating our technology not reaching the market until long after the initial design win with such customer. From initial product design-in to volume production, many factors could impact the timing and/or amount of sales actually realized from the design-in. These factors include, but are not limited to, changes in the competitive position of our technology, our customers' financial stability, and our customers' ability to ship products according to our customers' schedule. Moreover, current economic conditions may further prolong a customer's decision-making process and design cycle.

Further, because we do not control the business practices of our customers, we do not influence the degree to which they promote our technology or set the prices at which they sell products incorporating our technology. We cannot assure you that our customers will devote satisfactory efforts to promote their end products which incorporate our IP

solutions.

In addition, our royalties from licenses and therefore the growth of our business, are dependent upon the success of our customers in introducing products incorporating our technology and the success of those products in the marketplace. The primary customers for our products are semiconductor design and manufacturing companies, system OEMs and electronic equipment manufacturers, particularly in the telecommunications field. These industries are highly competitive, cyclical and have been subject to significant economic downturns at various times. These downturns are characterized by production overcapacity and reduced revenues, which at times may encourage semiconductor companies or electronic product manufacturers to reduce their expenditure on our technology. If we do not retain our current customers and continue to attract new customers, our business may be harmed.

**We depend on market acceptance of third-party semiconductor intellectual property.**

The semiconductor intellectual property (SIP) industry is a relatively small and emerging industry. Our future growth will depend on the level of market acceptance of our third-party licensable intellectual property model, the variety of intellectual property offerings available on the market, and a shift in customer preference away from in-house development of proprietary DSPs and connectivity IPs towards licensing open DSP cores, platforms and connectivity IPs. Furthermore, the third-party licensable intellectual property model is highly dependent on the market adoption of new services and products, such as low cost smartphones in emerging markets, LTE smartphones, mobile broadband, small cell base stations and the increased use of advanced audio, voice, computational photography and embedded vision in mobile, automotive and consumer products, as well as in IoT and connectivity applications. Such market adoption is important because the increased cost associated with ownership and maintenance of the more complex architectures needed for the advanced services and products may motivate companies to license third-party intellectual property rather than design them in-house.

**Table of Contents**

The trends that would enable our growth are largely beyond our control. Semiconductor customers also may choose to adopt a multi-chip, off-the-shelf chip solution versus licensing or using highly-integrated chipsets that embed our technologies. If the above referenced market shifts do not materialize or third-party SIP does not achieve market acceptance, our business, results of operations and financial condition could be materially harmed.

**Because we have significant international operations, we may be subject to political, economic and other conditions relating to our international operations that could increase our operating expenses and disrupt our revenues and business.**

Approximately 81% of our total revenues for the first nine months of 2015 were derived from customers located outside of the United States. We expect that international customers will continue to account for a significant portion of our revenues for the foreseeable future. As a result, the occurrence of any negative international political, economic or geographic events could result in significant revenue shortfalls. These shortfalls could cause our business, financial condition and results of operations to be harmed. Some of the risks of doing business internationally include:

unexpected changes in regulatory requirements;

fluctuations in the exchange rate for the U.S. dollar;

imposition of tariffs and other barriers and restrictions;

burdens of complying with a variety of foreign laws, treaties and technical standards;

uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property;

multiple and possibly overlapping tax structures and potentially adverse tax consequences;

political and economic instability; and

changes in diplomatic and trade relationships.

**We depend on a limited number of key personnel who would be difficult to replace.**

Our success depends to a significant extent upon certain of our key employees and senior management, the loss of which could materially harm our business. Competition for skilled employees in our field is intense. We cannot assure you that in the future we will be successful in attracting and retaining the required personnel.

**The sales cycle for our IP solutions is lengthy, which makes forecasting of our customer orders and revenues difficult.**

The sales cycle for our IP solutions is lengthy, often lasting three to nine months. Our customers generally conduct significant technical evaluations, including customer trials, of our technology as well as competing technologies prior to making a purchasing decision. In addition, purchasing decisions also may be delayed because of a customer's internal budget approval process. Furthermore, given the current market conditions, we have less ability to predict the timing of our customers' purchasing cycle and potential unexpected delays in such a cycle. Because of the lengthy sales cycle and potential delays, our dependence on a limited number of customers to generate a significant amount of revenues for a particular period and the size of customer orders, if orders forecasted for a specific customer for a particular period do not occur in that period, our revenues and operating results for that particular quarter could suffer. Moreover, a portion of our expenses related to an anticipated order is fixed and difficult to reduce or change, which may further impact our operating results for a particular period.

**Because our IP solutions are complex, the detection of errors in our products may be delayed, and if we deliver products with defects, our credibility will be harmed, the sales and market acceptance of our products may decrease and product liability claims may be made against us.**

Our IP solutions are complex and may contain errors, defects and bugs when introduced. If we deliver products with errors, defects or bugs, our credibility and the market acceptance and sales of our products could be significantly harmed. Furthermore, the nature of our products may also delay the detection of any such error or defect. If our products contain errors, defects and bugs, then we may be required to expend significant capital and resources to alleviate these problems. This could result in the diversion of technical and other resources from our other development efforts. Any actual or perceived problems or delays may also adversely affect our ability to attract or retain customers. Furthermore, the existence of any defects, errors or failure in our products could lead to product liability claims or lawsuits against us or against our customers. A successful product liability claim could result in substantial cost and divert management's attention and resources, which would have a negative impact on our financial condition and results of operations.

**Our success will depend on our ability to successfully manage our geographically dispersed operations.**

Most of our employees are located in Israel. We also added French employees after the RivieraWaves acquisition. Accordingly, our ability to compete successfully will depend in part on the ability of a limited number of key executives located in geographically dispersed offices to integrate management, address the needs of our customers and respond to changes in our markets. If we are unable to effectively manage and integrate our remote operations, our business may be materially harmed.

**Table of Contents**

**Our operations in Israel may be adversely affected by instability in the Middle East region.**

One of our principal research and development facilities is located in Israel, and our executive officers and some of our directors are residents of Israel. Although substantially all of our sales currently are being made to customers outside Israel, we are nonetheless directly influenced by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel could significantly harm our business, operating results and financial condition.

In addition, certain of our employees are currently obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called to active military duty at any time. Although we have operated effectively under these requirements since our inception, we cannot predict the effect of these obligations on the company in the future. Our operations could be disrupted by the absence, for a significant period, of one or more of our key employees due to military service.

**Our research and development expenses may increase if the grants we currently receive from the Israeli government and European Union are reduced or withheld.**

We currently receive research grants from programs of the Office of the Chief Scientist of Israel of the Israeli Ministry of Industry and Trade and the Seventh Framework Program of the European Union. We recorded an aggregate of \$3,687,000 for the first nine months of 2015. To be eligible for these grants, we must meet certain development conditions and comply with periodic reporting obligations. Although we have met such conditions in the past, should we fail to meet such conditions in the future our research grants may be repayable, reduced or withheld. The repayment or reduction of such research grants may increase our research and development expenses which in turn may reduce our operating income. Also, the timing of such payments from the Office of the Chief Scientist and European Union may vary from year to year and quarter to quarter, and we have no control on the timing of such payment.

**The Israeli tax benefits that we currently receive and the government programs in which we participate require us to meet certain conditions and may be terminated or reduced in the future, which could increase our tax expenses.**

We enjoy certain tax benefits in Israel, particularly as a result of the *Approved Enterprise* and the *Benefited Enterprise* status of our facilities and programs. To maintain our eligibility for these tax benefits, we must continue to meet certain conditions, relating principally to adherence to the investment program filed with the Investment Center of the Israeli Ministry of Industry and Trade and to periodic reporting obligations. Should we fail to meet such conditions in the future, these benefits would be cancelled and we would be subject to corporate tax in Israel at the standard corporate rate (26.5% in 2015) and could be required to refund tax benefits already received. In addition, we cannot assure you that these tax benefits will be continued in the future at their current levels or otherwise. The tax benefits under our active investment programs are scheduled to gradually expire starting in 2017. The termination or reduction of certain programs and tax benefits (particularly benefits available to us as a result of the *Approved Enterprise* and the *Benefited Enterprise* status of our facilities and programs) or a requirement to refund tax benefits already received may seriously harm our business, operating results and financial condition.

**Our failure to maintain certain research tax benefits applicable to French technology companies may adversely affect the results of operations of our RivieraWaves operations.**

Pursuant to our acquisition of the RivieraWaves operations, we will benefit from certain research tax credits applicable to French technology companies, including, for example, the *Crédit Impôt Recherche* ( *CIR* ). The *CIR* is a



French tax credit aimed at stimulating research activities. The CIR can be offset against French corporate income tax due and the portion in excess (if any) may be refunded annually. The French Parliament can decide to eliminate, or reduce the scope or the rate of, the CIR benefit, at any time or challenge our eligibility or calculations for such tax credits, all of which may have an adverse impact on our results of operations and future cash flows.

**We are exposed to fluctuations in currency exchange rates.**

A significant portion of our business is conducted outside the United States. Although most of our revenues are transacted in U.S. dollars, we may be exposed to currency exchange fluctuations in the future as business practices evolve and we are forced to transact business in local currencies. Moreover, the majority of our expenses are denominated in foreign currencies, mainly New Israeli Shekel (NIS) and the Euro, which subjects us to the risks of foreign currency fluctuations. Our primary expenses paid in currencies other than the U.S. dollar are employee salaries. Increases in the volatility of the exchange rates of currencies other than the U.S. dollar versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur in currencies other than the U.S. dollar when remeasured into U.S. dollars for financial reporting purposes. We have instituted a foreign cash flow hedging program to minimize the effects of currency fluctuations. However, hedging transactions may not successfully mitigate losses caused

## **Table of Contents**

by currency fluctuations, and our hedging positions may be partial or may not exist at all in the future. We also review our monthly expected non-U.S. dollar denominated expenditure and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations. We expect to continue to experience the effect of exchange rate currency fluctuations on an annual and quarterly basis.

### **We are exposed to the credit risk of our customers, which could result in material losses.**

As we diversify and expand our addressable market, we will enter into licensing arrangements with first time customers with whom we don't have full visible of their creditworthiness. Furthermore, we have increased business activities in the Asia Pacific region. As a result, our future credit risk exposure may increase. Although we monitor and attempt to mitigate credit risks, there can be no assurance that our efforts will be effective. Although any losses to date relating to credit exposure of our customers have not been material, future losses, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition.

### **Our product development efforts are time-consuming and expensive and may not generate an acceptable return, if any.**

Our product development efforts require us to incur substantial research and development expense. Our research and development expenses were approximately \$21.2 million for the first nine months of 2015. We may not be able to achieve an acceptable return, if any, on our research and development efforts.

The development of our products is highly complex. We occasionally have experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. Unanticipated problems in developing products could also divert substantial engineering resources, which may impair our ability to develop new products and enhancements and could substantially increase our costs. Furthermore, we may expend significant amounts on research and development programs that may not ultimately result in commercially successful products. Our research and development expense levels increased since the third quarter of 2014 after the acquisition of RivieraWaves. As a result of these and other factors, we may be unable to develop and introduce new products successfully and in a cost-effective and timely manner, and any new products we develop and offer may never achieve market acceptance. Any failure to successfully develop future products would have a material adverse effect on our business, financial condition and results of operations.

### **If we are unable to meet the changing needs of our end-users or address evolving market demands, our business may be harmed.**

The markets for programmable DSP cores, application IPs and connectivity IPs are characterized by rapidly changing technology, emerging markets and new and developing end-user needs, and requiring significant expenditure for research and development. We cannot assure you that we will be able to introduce systems and solutions that reflect prevailing industry standards, on a timely basis, meet the specific technical requirements of our end-users or avoid significant losses due to rapid decreases in market prices of our products, and our failure to do so may seriously harm our business.

### **We may seek to expand our business in ways that could result in diversion of resources and extra expenses.**

We may in the future pursue acquisitions of businesses, products and technologies, establish joint venture arrangements, make minority equity investments or enhance our existing CEVA net partner eco-system to expand our business. We are unable to predict whether or when any prospective acquisition, equity investment or joint venture will be completed. The process of negotiating potential acquisitions, joint ventures or equity investments, as well as

the integration of acquired or jointly developed businesses, technologies or products may be prolonged due to unforeseen difficulties and may require a disproportionate amount of our resources and management's attention. We cannot assure you that we will be able to successfully identify suitable acquisition or investment candidates, complete acquisitions or investments, or integrate acquired businesses or joint ventures with our operations. If we were to make any acquisition or investment or enter into a joint venture, we may not receive the intended benefits of the acquisition, investment or joint venture or such an acquisition, investment or joint venture may not achieve comparable levels of revenues, profitability or productivity as our existing business or otherwise perform as expected. The expansion of our CEVA net partner eco-system also may not achieve the anticipated benefits. The occurrence of any of these events could harm our business, financial condition or results of operations. Future acquisitions, investments or joint ventures may require substantial capital resources, which may require us to seek additional debt or equity financing.

Future acquisitions, joint ventures or minority equity investments by us could result in the following, any of which could seriously harm our results of operations or the price of our stock:

issuance of equity securities that would dilute our current stockholders' percentages of ownership;

large one-time write-offs or equity investment impairment write-offs;

incurrence of debt and contingent liabilities;

**Table of Contents**

difficulties in the assimilation and integration of operations, personnel, technologies, products and information systems of the acquired companies;

inability to realize cost efficiencies or synergies, thereby incurring higher operating expenditures as a result of the acquisition;

diversion of management's attention from other business concerns;

contractual disputes;

risks of entering geographic and business markets in which we have no or only limited prior experience; and

potential loss of key employees of acquired organizations.

**We may not be able to adequately protect our intellectual property.**

Our success and ability to compete depend in large part upon the protection of our proprietary technologies. We rely on a combination of patent, copyright, trademark, trade secret, mask work and other intellectual property rights, confidentiality procedures and licensing arrangements to establish and protect our proprietary rights. These agreements and measures may not be sufficient to protect our technology from third-party infringement or protect us from the claims of others. As a result, we face risks associated with our patent position, including the potential need to engage in significant legal proceedings to enforce our patents, the possibility that the validity or enforceability of our patents may be denied, the possibility that third parties will be able to compete against us without infringing our patents and the possibility that our products may infringe patent rights of third parties.

Our trade names or trademarks may be registered or utilized by third parties in countries other than those in which we have registered them, impairing our ability to enter and compete in those markets. If we were forced to change any of our brand names, we could lose a significant amount of our brand identity.

**Our business will suffer if we are sued for infringement of the intellectual property rights of third parties or if we cannot obtain licenses to these rights on commercially acceptable terms.**

We are subject to the risk of adverse claims and litigation alleging infringement of the intellectual property rights of others. There are a large number of patents held by others, including our competitors, pertaining to the broad areas in which we are active. We have not, and cannot reasonably, investigate all such patents. From time to time, we have become aware of patents in our technology areas and have sought legal counsel regarding the validity of such patents and their impact on how we operate our business, and we will continue to seek such counsel when appropriate in the future. In addition, patent infringement claims are increasingly being asserted by patent holding companies (so-called patent trolls), which do not use technology and whose sole business is to enforce patents against companies, such as us, for monetary gain. Because such patent holding companies do not provide services or use technology, the assertion of our own patents by way of counter-claim may be ineffective. Infringement claims may require us to enter into license arrangements or result in protracted and costly litigation, regardless of the merits of these claims. Any necessary licenses may not be available or, if available, may not be obtainable on commercially reasonable terms. If we cannot obtain necessary licenses on commercially reasonable terms, we may be forced to stop licensing our

technology, and our business would be seriously harmed.

**The future growth of our business depends in part on our ability to license to system OEMs and small-to-medium-sized semiconductor companies directly and to expand our sales geographically.**

Historically, a substantial portion of our licensing revenues has been derived in any given period from a relatively small number of licensees. Because of the substantial license fees we charge, our customers tend to be large semiconductor companies or vertically integrated system OEMs. Part of our current growth strategy is to broaden the adoption of our products by small and mid-size companies by offering different versions of our products targeted at these companies. If we are unable to develop and market effectively our intellectual property through these models, our revenues will continue to be dependent on a smaller number of licensees and a less geographically dispersed pattern of licensees, which could materially harm our business and results of operations.

**Our operating results are affected by the highly cyclical nature of the semiconductor industry.**

We operate within the semiconductor industry which experiences significant fluctuations in sales and profitability. Downturns in the semiconductor industry are characterized by diminished product demand, excess customer inventories, accelerated erosion of prices and excess production capacity. These factors could cause substantial fluctuations in our revenues and in our results of operations.

---

**Table of Contents**

**We may dispose of or discontinue existing product lines and technology developments, which may adversely impact our future results.**

On an ongoing basis, we evaluate our various product offerings and technology developments in order to determine whether any should be discontinued or, to the extent possible, divested. We cannot guarantee that we have correctly forecasted, or will correctly forecast in the future, the right product lines and technology developments to dispose or discontinue or that our decision to dispose of or discontinue various investments, products lines and technology developments is prudent if market conditions change. In addition, there are no assurances that the discontinuance of various product lines will reduce our operating expenses or will not cause us to incur material charges associated with such decision. Furthermore, the discontinuance of existing product lines entails various risks, including the risk that we will not be able to find a purchaser for a product line or the purchase price obtained will not be equal to at least the book value of the net assets for the product line. Other risks include managing the expectations of, and maintaining good relations with, our customers who previously purchased products from our disposed or discontinued product lines, which could prevent us from selling other products to them in the future. We may also incur other significant liabilities and costs associated with our disposal or discontinuance of product lines, including employee severance costs and excess facilities costs.

**Our corporate tax rate may increase, which could adversely impact our cash flow, financial condition and results of operations.**

We have significant operations in Israel, as well operations in the Republic of Ireland and France. A substantial portion of our taxable income historically has been generated in Israel. Currently, our Israeli and Irish subsidiaries are taxed at rates substantially lower than the U.S. tax rates. If our Israeli and Irish subsidiaries were no longer to qualify for these lower tax rates or if the applicable tax laws were rescinded or changed, our operating results could be materially adversely affected. In addition, because our Israeli, Irish and French operations are owned by subsidiaries of our U.S. parent corporation, distributions to the U.S. parent corporation, and in certain circumstances undistributed income of the subsidiaries, may be subject to U.S. taxes. Moreover, if U.S. or other authorities were to change applicable tax laws or successfully challenge the manner in which our subsidiaries' profits are currently recognized, our overall tax expenses could increase, and our business, cash flow, financial condition and results of operations could be materially adversely affected. Also our taxes on the Irish interest income may be double taxed both in Ireland and in the U.S. due to U.S. tax regulations and Irish tax restrictions on NOLs to off-set interest income. In addition, starting in 2012, our Israeli interest income also may be taxed both in Israel and the U.S due to different Controlled Foreigner Corporation rules.

**Our stock price may be volatile so you may not be able to resell your shares of our common stock at or above the price you paid for them.**

Announcements of developments related to our business, announcements by competitors, quarterly fluctuations in our financial results, changes in the general conditions of the highly dynamic industry in which we compete or the national economies in which we do business, and other factors could cause the price of our common stock to fluctuate, perhaps substantially. In addition, in recent years, the stock market has experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. These factors and fluctuations could have a material adverse effect on the market price of our common stock.

**Table of Contents****Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The table below sets forth the information with respect to repurchases of our common stock during the three months ended September 30, 2015.

<b>Period</b>	<b>(a) Total Number of Shares Purchased</b>	<b>(b) Average Price Paid per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum  Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)</b>
Month #1 (July 1, 2015 to July 31, 2015)				729,980
Month #2 (August 1, 2015 to August 31, 2015)	158,570	\$ 17.74	158,570	571,410
Month #3 (September 1, 2015 to September 30, 2015)				571,410
<b>TOTAL</b>	<b>158,570</b>	<b>\$ 17.74</b>	<b>158,570</b>	<b>571,410(2)</b>

- (1) In August 2008, we announced that our board of directors approved a share repurchase program for up to one million shares of common stock which was further extended by an additional four million shares in 2010 and 2013. In October 2014, our board of directors authorized the repurchase of an additional one million shares of common stock pursuant to Rule 10b-18 of the Exchange Act.
- (2) The number represents the number of shares of our common stock that remain available for the repurchase pursuant to our share repurchase program.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Item 5. OTHER INFORMATION**

Not applicable.

**Item 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document



Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CEVA, INC.

Date: November 9, 2015

By: /s/ GIDEON WERTHEIZER  
Gideon Wertheizer

Chief Executive Officer

(principal executive officer)

Date: November 9, 2015

By: /s/ YANIV ARIELI  
Yaniv Arieli

Chief Financial Officer

(principal financial officer and principal accounting officer)